

Letter to
Stockholders

Annual Meeting
Invitation

Notice of 2008
Annual Meeting
and Proxy
Statement

2008 Annual
Report on Form
10-K

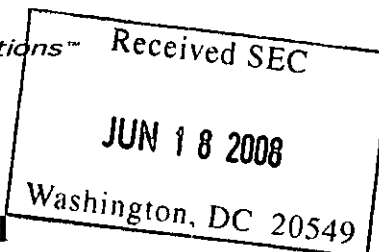
EnerSys™

Power/Full Solutions™



08051871

AR/S



Proxy Statement and 2008 Annual Report to Stockholders

Dear Fellow Stockholder:

We are pleased to provide this annual report for our fiscal year ending March 31, 2008, during which we again achieved record sales and earnings. Net sales increased 35% to over \$2 billion and net earnings increased 32% to \$59.7 million. Our stock price has reflected this performance with an increase of 39% in the past year to a closing price of \$23.92 at this fiscal year end.

The growth in revenue and earnings was strong in both segments of our business and in our three geographic regions. We achieved the record earnings in spite of facing incremental commodity costs during the year of approximately \$240 million, which we were able to offset through a combination of increased selling prices, higher sales volume and the continuation of our successful cost savings programs. We believe these results demonstrate the value our customers place on our quality products and service. Our employees remain committed to our continuous improvement in these areas and we thank them for their valuable contributions to the success of EnerSys.

This was a satisfying year in many ways as we addressed the many challenges we faced while achieving the record sales and earnings. We look forward to another successful upcoming year.

I thank our stockholders for their continued support, our employees for their many contributions to our success, our valued suppliers, and especially our customers for their confidence in our products and services.

PROCESSED

JUN 24 2008

THOMSON REUTERS

Sincerely,

John D. Craig
Chairman of the Board,
President and Chief Executive Officer

Please refer to "Management's Discussion and Analysis" in our Annual Report on Form 10-K attached to this letter for additional information, including a reconciliation of the non-GAAP measures to the comparable GAAP measures.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this letter regarding EnerSys' business, which are not historical facts, are "forward-looking statements" that involves risks and uncertainties. For a discussion of such risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see the Company's filings with the Securities Exchange Commission, including "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K attached to this letter.

Annual Meeting Invitation



June 17, 2008

Dear Fellow Stockholder:

EnerSys will hold its 2008 annual meeting of stockholders (the "Annual Meeting") on Thursday, July 17, 2008, at 10:00 a.m. (Eastern time) at our corporate offices located at 2366 Bernville Road, Reading, Pennsylvania 19605. You can find directions to our corporate offices on the Investor Relations page of our website at www.enersys.com.

Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting in person, we urge you to read these proxy materials and cast your vote on the matters that will be presented at the Annual Meeting. Stockholders of record have the option of voting by telephone, through the Internet or by completing, signing, dating and returning the enclosed proxy card in the envelope provided. Doing so will not prevent you from voting in person at the Annual Meeting.

Thank you very much for your continued interest in EnerSys.

Sincerely,

A handwritten signature in black ink, appearing to read "John D. Craig". The signature is fluid and cursive, with a large loop at the end.

John D. Craig
Chairman of the Board,
President and Chief Executive Officer

TABLE OF CONTENTS

	<u>Page</u>
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD JULY 17, 2008	ii
PROXY STATEMENT	1
GENERAL INFORMATION	1
PROPOSAL NO. 1—ELECTION OF THE CLASS I DIRECTOR NOMINEES OF THE BOARD OF DIRECTORS	3
CORPORATE GOVERNANCE	7
DIRECTOR COMPENSATION	11
NON-EMPLOYEE DIRECTOR COMPENSATION FOR FISCAL YEAR 2008	13
PROPOSAL NO. 2—RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	13
RECOMMENDATION	13
AUDIT COMMITTEE REPORT	14
EXECUTIVE OFFICERS	16
EXECUTIVE COMPENSATION	16
COMPENSATION COMMITTEE REPORT	24
SUMMARY COMPENSATION TABLE	25
POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL	29
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	32
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	35
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	35
OTHER INFORMATION	37
INDEPENDENCE STANDARDS	Appendix A
ANNUAL REPORT ON FORM 10-K	Appendix B

**NOTICE
OF
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JULY 17, 2008**

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders (the "Annual Meeting") of EnerSys will be held on Thursday, July 17, 2008, at 10:00 a.m. (Eastern time) at its corporate offices located at 2366 Bernville Road, Reading, Pennsylvania 19605, for the following purposes:

- (1) Proposal No. 1: To elect the three (3) Class I director nominees of the Board of Directors of EnerSys, each to serve for a term of three years and until their respective successors shall have been elected and qualified;
- (2) Proposal No. 2: To ratify the appointment of Ernst & Young LLP as EnerSys' independent registered public accounting firm for the fiscal year ending March 31, 2009; and
- (3) To transact such other business as may properly be presented at the Annual Meeting or any adjournment or postponement thereof.

Only stockholders of record at the close of business on June 2, 2008, are entitled to notice of, and to vote at, the Annual Meeting or any adjournment or postponement thereof. A list of these stockholders is available at the corporate offices of EnerSys and will be available at the Annual Meeting.

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND VOTED AT THE ANNUAL MEETING. STOCKHOLDERS OF RECORD MAY VOTE BY TELEPHONE, THROUGH THE INTERNET OR BY SIGNING, DATING AND RETURNING THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED. SPECIFIC INSTRUCTIONS FOR TELEPHONE AND INTERNET VOTING ARE SET FORTH ON THE ENCLOSED PROXY CARD.

By Order of the Board of Directors



Richard W. Zuidema
Executive Vice President—Administration and
Secretary

Reading, Pennsylvania
June 17, 2008



PROXY STATEMENT

GENERAL INFORMATION

Solicitation of Proxies. The Board of Directors of EnerSys is providing this Proxy Statement to solicit proxies for use at EnerSys' annual meeting of stockholders to be held at its corporate offices located at 2366 Bernville Road, Reading, Pennsylvania 19605 on Thursday, July 17, 2008, at 10:00 a.m. (Eastern time) or any adjournment or postponement thereof (the "Annual Meeting"). EnerSys (the "Company," "we," "our," or "us") is first delivering this Proxy Statement, the foregoing notice and the accompanying proxy card to stockholders on or about June 17, 2008.

Purpose of the Meeting. At the Annual Meeting, our stockholders will be asked to vote on the following proposals:

Proposal No. 1: To elect the three (3) Class I director nominees of the Board of Directors of EnerSys, each to serve for a term of three years and until their respective successors shall have been elected and qualified; and

Proposal No. 2: To ratify the appointment of Ernst & Young LLP as EnerSys' independent registered public accounting firm for the fiscal year ending March 31, 2009.

Record Date. Only stockholders of record at the close of business on June 2, 2008 (the "Record Date"), are entitled to notice of, and to vote at, the Annual Meeting. At the close of business on the Record Date, there were 49,596,280 shares of EnerSys common stock outstanding, each of which will be entitled to one vote at the Annual Meeting.

Quorum. The presence, in person or by proxy, of stockholders entitled to cast at least a majority of the votes that all stockholders are entitled to cast will constitute a quorum at the Annual Meeting. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of votes considered to be present at the Annual Meeting for purposes of determining the presence of a quorum.

Voting and Revocation of Proxies. Stockholders of record can choose one of the following three ways to vote:

1. By mail: Complete, sign, date and return the enclosed proxy card in the pre-paid envelope provided. If you return the signed proxy card but do not mark the boxes showing how you wish to vote, your votes will be cast "FOR" the election of all director nominees, and "FOR" the ratification of the appointment of Ernst & Young LLP as EnerSys' independent registered public accounting firm.

2. By telephone: Call the toll-free telephone number on the proxy card (888-693-8683) and follow the instructions.

3. Through the Internet: Access the website www.cesvote.com and follow the instructions.

We encourage each stockholder of record to submit their proxy electronically through the Internet, if that option is available, or by telephone. Delivery of a proxy in any of the three ways listed above will not affect a stockholder's right to attend the Annual Meeting and vote in person. If your shares are held in "street name" (that is, through a broker, trustee or other holder of record), you will receive a proxy card from your broker seeking

instructions as to how your shares should be voted. If no voting instructions are given, your broker or nominee has discretionary authority to vote your shares on your behalf on routine matters. A "broker non-vote" results on a matter when your broker or nominee returns a proxy but does not vote on a particular proposal because it does not have discretionary authority to vote on that proposal and has not received voting instructions from you. Under the rules of The New York Stock Exchange, the proposals to elect the director nominees of the Board of Directors and the ratification of the appointment of the independent registered public accounting firm are each routine matters and thus your broker or nominee has discretionary authority to vote on these matters. Accordingly, we believe that there will be no broker non-votes at the Annual Meeting. You may not vote shares held in "street name" at the Annual Meeting unless you obtain a legal proxy from your broker or holder of record.

Any stockholder of record giving a proxy may revoke it by doing any of the following:

- Delivering a written notice of revocation to the Secretary of EnerSys, dated later than the proxy, before the vote is taken at the Annual Meeting;
- Delivering a duly executed proxy to the Secretary of EnerSys, bearing a later date (including proxy by telephone or through the Internet) before the vote is taken at the Annual Meeting; or
- Voting in person at the Annual Meeting (your attendance at the Annual Meeting, in and of itself, will not revoke the proxy).

Any written notice of revocation, or later dated proxy, should be delivered to:

EnerSys
2366 Bernville Road
Reading, Pennsylvania 19605
Attention: Richard W. Zuidema, Executive Vice President—Administration and Secretary

Required Votes. The affirmative vote of a plurality of the votes cast at the meeting is required for the election of director nominees. A properly executed proxy marked "*WITHHOLD*" with respect to the election of one or more director nominees will not be voted with respect to the director nominee or director nominees indicated.

The ratification of the appointment of Ernst & Young LLP as EnerSys' independent registered public accounting firm for the fiscal year ending March 31, 2009, requires the affirmative vote of the holders of a majority of the shares represented and entitled to vote at the Annual Meeting. With respect to these matters, abstentions will have the same effect as voting against such proposal and broker non-votes, if any, will not constitute or be counted as "votes" cast for purposes of this proposal.

Attendance at the Annual Meeting. Attendance at the Annual Meeting will be limited to stockholders as of the Record Date, their authorized representatives and guests of EnerSys.

Metalmark and our Institutional Stockholders. We entered into a Securityholder Agreement, dated as of July 26, 2004, as amended (the "Securityholder Agreement"), with Metalmark Capital LLC, an independent private equity firm established in 2004 by former principals of Morgan Stanley Capital Partners to manage Morgan Stanley Capital Partners' private equity funds and to make private equity investments in a broad range of industries ("Metalmark"), certain institutional stockholders, and certain members of our senior management, which governs certain relationships among such parties. Metalmark and the Institutional Stockholders (as defined below) may be deemed to be a "group" for purposes of Section 13(d)(3) or Section 13(g)(3) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Rule 13d-5(b)(1) thereunder. As of May 28, 2008, the Institutional Stockholders held approximately 15.1% of the outstanding shares of our common stock. The Institutional Stockholders have advised us that they intend to vote all such shares in favor of the Board's nominees for director and in favor of the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2009.

The "Institutional Stockholders" are Morgan Stanley Dean Witter Capital Partners IV, L.P. ("MSCP IV, L.P."), MSDW IV 892 Investors, L.P. ("MSCP IV 892, L.P."), and Morgan Stanley Dean Witter Capital Investors IV, L.P. ("MSCI IV, L.P.") (collectively, the "MSCP Funds"), Morgan Stanley Global Emerging Markets Private Investment Fund, L.P., and Morgan Stanley Global Emerging Markets Private Investors, L.P. (collectively, the "MSGEM Funds"), J.P. Morgan Direct Corporate Finance Institutional Investors LLC, J.P. Morgan Direct Corporate Finance Private Investors LLC, and 522 Fifth Avenue Fund, L.P. (collectively, the "J.P. Morgan Funds"), and First Plaza Group Trust and Performance Direct Investments I, L.P. f/k/a GM Capital Partners I, L.P. (collectively, the "GM Stockholders"). The MSCP Funds and the MSGEM Funds are hereinafter called, collectively, the "Morgan Stanley Funds." In January 2008, substantially all of the employees of Metalmark became employees of Citi Alternative Investments Inc., although Metalmark remains an entity owned by those individuals and continues to manage the Morgan Stanley Funds on a subadvisory basis. Three (3) of our directors, Messrs. Chung, Hoffen and Hoffman, are currently employees of both Metalmark and Citi Alternative Investments Inc. For more information on the terms of, and the parties to, the Securityholder Agreement, see "Certain Relationships and Related Transactions—Securityholder Agreement" herein.

The general partners of the Morgan Stanley Funds are wholly owned subsidiaries of Morgan Stanley. An affiliate of Metalmark manages MSCP Funds IV, L.P. and MSCP IV 892, L.P. pursuant to a subadvisory agreement (the "Subadvisory Agreement"). In addition, under the Subadvisory Agreement, MSCI IV, L.P. is effectively obligated to vote or direct the vote and to dispose or direct the disposition of any of our shares owned directly by it on the same terms and conditions as MSCP IV, L.P. and MSCP IV 892, L.P.

PROPOSAL NO. 1

ELECTION OF THE CLASS I DIRECTOR NOMINEES OF THE BOARD OF DIRECTORS

General

Our certificate of incorporation provides that the Board of Directors shall consist of not less than three nor more than eleven members, as fixed by the Board of Directors from time to time. The certificate of incorporation also divides the Board into three classes, with each class to be as nearly equal in number as possible. The members of each class will serve for a staggered, three-year term. Upon the expiration of the term of a class of directors, nominees for directors in that class will be considered for election for three-year terms at the annual meeting of stockholders in the year in which the term of directors in that class expires.

Our Board of Directors currently consists of nine members, divided into three classes. The classes are composed of the following directors:

Messrs. Lehman, Mabus and Marlo are Class I directors, whose terms will expire at the 2008 annual meeting of stockholders;

Messrs. Chung, Hoffman and Katsaros are Class II directors, whose terms will expire at the 2009 annual meeting of stockholders; and

Messrs. Craig, Hoffen and Muscari are Class III directors, whose terms will expire at the 2010 annual meeting of stockholders.

Effective July 18, 2008, Mr. Hoffman will resign from the Board of Directors and be replaced by General Robert Magnus, USMC (Retired), who will serve as a Class II director, with a term expiring at the 2009 annual meeting of stockholders.

Director Nominees of the Board of Directors

Based on the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has unanimously nominated Mr. John F. Lehman, Mr. Raymond E. Mabus, Jr., and Mr. Dennis S. Marlo for election as Class I directors of EnerSys. Each of the nominees currently serves as a director of EnerSys.

and has consented to being named in this Proxy Statement and to serve, if elected. Each of the directors elected at the Annual Meeting will hold office until the 2011 annual meeting of stockholders and until their successors are duly elected and qualified. If any of the nominees become unable to accept nomination or election, the persons named in the proxy may vote for a substitute nominee selected by the Board of Directors. Our management, however, has no present reason to believe that any Class I nominee will be unable to serve as a director, if elected.

The three director nominees who receive the highest number of votes cast at the Annual Meeting will be elected Class I directors. Shares represented by properly delivered proxies will be voted for the Class I director nominees unless otherwise specified in the proxy by the stockholder. Any stockholder who wishes to withhold authority from the proxyholders to vote for the election of directors or to withhold authority to vote for any individual director nominee may do so by voting his or her proxy to that effect. Stockholders cannot cumulate their votes for the election of directors. No proxy may be voted for a greater number of persons than the number of director nominees named.

RECOMMENDATION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF EACH OF THE DIRECTOR NOMINEES LISTED ABOVE.

BOARD OF DIRECTORS

The following table sets forth certain information with respect to our directors and the director nominees as of the date of this proxy statement:

<u>Name</u>	<u>Age</u>	<u>Position with EnerSys</u>	<u>Year First Became Director</u>	<u>Term as Director will Expire(1)</u>
John D. Craig	57	Chairman of the Board, President and Chief Executive Officer	2000	2010
Hwan-yoon F. Chung	34	Director	2006	2009
Howard I. Hoffen	44	Director	2000	2010
Michael C. Hoffman	45	Director	2004	2009
Arthur T. Katsaros	60	Director	2005	2009
John F. Lehman	65	Director	2004	2008
Raymond E. Mabus, Jr.	59	Director	2007	2008
Dennis S. Marlo	65	Director	2004	2008
Joseph C. Muscari	61	Director	2008	2010

(1) Directors' terms of office are scheduled to expire at the annual meeting of stockholders to be held in the year indicated.

The principal occupation and business experience during the last five years of, and other information with respect to, each nominee for election as a director of EnerSys and of each continuing director is as follows:

John D. Craig. Mr. Craig has served as Chairman of the Board of Directors, President and Chief Executive Officer and a Director of EnerSys since November 2000. From 1998 to October 2000, he served as President and Chief Operating Officer of Yuasa, Inc., the predecessor company to EnerSys. Mr. Craig joined Yuasa in 1994. Mr. Craig received his Master of Electronics Engineering Technology degree from Arizona State University and his Bachelor of Science degree from Western Michigan University.

Hwan-yoon F. Chung. Mr. Chung has been a Director of EnerSys since February 2006. Mr. Chung has been an Executive Director of Metalmark Capital LLC since its inception in 2004. Prior to joining Metalmark, he was an Executive Director of Morgan Stanley Private Equity from 2002 to 2004, and Vice

President of Morgan Stanley Private Equity from 2000 to 2002. He is also a Director of ACG Holdings, Inc., a private printing company. Mr. Chung received his Bachelor of Arts in Philosophy from the College of Arts and Sciences of the University of Pennsylvania, and his Bachelor of Science degree in Economics from the Wharton School of Business of the University of Pennsylvania.

Howard I. Hoffen. Mr. Hoffen has been a Director of EnerSys since November 2000. Mr. Hoffen has been the Chairman and Chief Executive Officer of Metalmark Capital LLC since its formation in 2004. Prior to joining Metalmark, from 2001 to 2004, he was the Chairman and CEO of Morgan Stanley Capital Partners and a Managing Director of MS & Co., since 1997. Mr. Hoffen serves as a Director of Union Drilling, Inc., which is listed on the NASDAQ Stock Market. He is also a Director of the following private companies: Aqua Capital Management LLC, a natural resources company, Direct Response Corporation, an auto insurance company, Homesite Group, Inc., a homeowners insurance company, MeriCap Credit, a specialty finance company, Melissa & Doug, a designer and manufacturer of educational toys and children's products, Ocwen Structured Investments, an entity specializing in mortgage securities, and Tegrant Corporation, a specialty manufacturing company. Mr. Hoffen received his Master of Business Administration degree from Harvard Business School and his Bachelor of Science degree from Columbia University.

Michael C. Hoffman. Mr. Hoffman has been a Director of EnerSys since the completion of our initial public offering in August 2004. Mr. Hoffman has been a Managing Director of Metalmark Capital LLC since 2004. Prior to joining Metalmark, he was a Managing Director of Morgan Stanley Capital Partners from 1998 to 2004. He joined MS & Co. in 1986 and worked in the firm's Strategic Planning Group prior to joining Morgan Stanley Private Equity in 1990. Mr. Hoffman is a Director of Aventine Renewable Energy, Inc., which is listed on the NASDAQ Stock Market, ACG Holdings, Inc. and Hunter Defense Technologies, Inc., a developer of equipment for military personnel. Mr. Hoffman received his Bachelor of Science degree in Operations Research and Industrial Engineering from Cornell University.

Arthur T. Katsaros. Mr. Katsaros has been a Director of EnerSys since July 2005. Mr. Katsaros was most recently the Group Vice President—Development and Technology of Air Products and Chemicals, Inc. since 2002 and until his retirement in April 2007. From 1996 through 2002, he was Group Vice President of Engineered Systems and Operations of Air Products. Mr. Katsaros received a Bachelor of Science degree in Chemical Engineering from Worcester Polytechnic Institute in 1969 and a Master of Business Administration from Lehigh University in 1977. He also completed the Advanced Management Program at Harvard University's Graduate School of Business in 1992.

John F. Lehman. Mr. Lehman has been a Director of EnerSys since the completion of our initial public offering in August 2004. Mr. Lehman is a founding partner of J.F. Lehman & Company, a private equity firm, and has been its Chairman since November 1990. Prior to founding J.F. Lehman & Company, Mr. Lehman was a Managing Director in Corporate Finance at PaineWebber Incorporated, served for six years as Secretary of the Navy, was a member of the National Security Council Staff, served as a delegate to the Mutual Balanced Force Reductions negotiations and was the Deputy Director of the Arms Control and Disarmament Agency. Mr. Lehman serves as a Director of Ball Corporation, which is listed on The New York Stock Exchange. He is the Chairman of the following private companies: Special Devices, Incorporated, a manufacturer of initiators, OAO Technology Solutions, Inc., an information solutions provider, Racal Instruments, Inc., a test and measurement systems developer, and Racal Acoustics Ltd., an audio communications company. He also serves as a Director of ISO Inc., a risk information provider. Mr. Lehman is a member of the National Commission on Terrorist Attacks upon the United States. He is also Chairman of the Princess Grace Foundation. Mr. Lehman received his Bachelor of Science degree from St. Joseph's University, his Bachelor of Arts and Master of Arts degrees from Cambridge University and a Doctorate from the University of Pennsylvania.

Raymond E. Mabus, Jr. Mr. Mabus has been a Director of EnerSys since August 2007. Mr. Mabus served as Chairman of the Board of Foamex International Inc. ("Foamex") from February 2004 to April 2007 and as a Director of Foamex since September 2000. He also served as President and CEO of Foamex from June 2006 to April 2007. Mr. Mabus served as U. S. ambassador to the Kingdom of Saudi Arabia from 1994 to 1996. He was elected governor of Mississippi and served from 1988 to 1992. He is

currently active in his family's timber business. Mr. Mabus also serves on the board of directors of Fusion Telecommunications International, Inc., which is listed on the American Stock Exchange, Hines Horticulture, Inc., a producer and distributor of horticultural products, Eggs Overnight, a transportation logistics company, Strategic Partnerships LLC, an employee training service company, WinCup, a manufacturer of foam and plastic cups. Mr. Mabus received a Juris Doctor from Harvard Law School, a Master of Arts in Political Science from the John Hopkins University and a Bachelor of Arts in English and Political Science from the University of Mississippi. Mr. Mabus was recommended to our Nominating and Corporate Governance Committee by a third-party search firm.

Dennis S. Marlo. Mr. Marlo has been a Director of EnerSys since the completion of our initial public offering in August 2004. Mr. Marlo has served as an Executive Vice President of Sovereign Bancorp, Inc. since June 2004 and served as Chief Risk Management Officer of Sovereign Bancorp, Inc. from April 2001 through June 2004. Mr. Marlo joined Sovereign in February 1998 as the President of the Pennsylvania Division of Sovereign Bank and was appointed Chief Financial Officer and Treasurer of Sovereign in May 1998, serving in that capacity through April 2001. Prior thereto, Mr. Marlo served as President and Chief Executive Officer of ML Bancorp Inc., a predecessor company of Sovereign, and as a partner with KPMG, LLP. Mr. Marlo is currently Chairman of the Board of Directors of the Federal Home Loan Bank of Pittsburgh, a government sponsored enterprise. He is also a director of NOVA Financial Holdings, Inc. and its wholly-owned subsidiary, NOVA Bank, a privately held financial services company. Mr. Marlo completed the Graduate School of Community Bank Management at the University of Texas at Austin and received his Bachelor of Science degree in Accounting from La Salle University. He is a certified public accountant.

Joseph C. Muscari. Mr. Muscari has been a Director of EnerSys since June 2008. Mr. Muscari has served as Chairman and Chief Executive Officer of Minerals Technologies Inc. ("MTI"), which is listed on The New York Stock Exchange, since March 2007 and as a Director of MTI since February 2005. For the prior 37 years, Mr. Muscari worked at Alcoa Inc., where he held a number of executive positions. He served as Executive Vice President and Chief Financial Officer from January 2006 to January 1, 2007. Mr. Muscari previously served as Executive Vice President—Alcoa and Group President, Rigid Packaging, Foil and Asia since October 2004. He had been an Executive Vice President of Alcoa since 2002, when he had responsibility for Alcoa's businesses in Asia and Latin America. Mr. Muscari received his Bachelor of Science degree in industrial engineering from the New Jersey Institute of Technology and his Masters in Business Administration from the University of Pittsburgh. Mr. Muscari was recommended to our Nominating and Corporate Governance Committee by a third-party search firm.

Effective July 18, 2008, following the resignation of Mr. Hoffman, the Board of Directors will include:

General Robert Magnus, USMC (Retired). Gen. Magnus is a retired United States Marine Corps general who served as the Assistant Commandant of the Marine Corps from 2005 to 2008. He retired from the Marine Corps in 2008 after over 38 years of distinguished service. General Magnus' operational assignments included Commander, Marine Corps Air Bases Western Area and Deputy Commander, Marine Forces Pacific. Gen. Magnus' staff assignments included Chief, Logistics Readiness Center, Joint Staff; Executive Assistant to the Director of the Joint Staff; Head, Aviation Plans and Programs Branch; Assistant Deputy Chief of Staff for Aviation; Assistant Deputy Commandant for Plans, Policies, and Operations; and Deputy Commandant for Programs and Resources. Gen. Magnus received his Bachelor of Arts degree in history from the University of Virginia and his Masters in Business Administration degree from Strayer College. His formal military education included Naval Aviator Training, U.S. Marine Corps Command and Staff College, and the National War College. Gen. Magnus' personal decorations included the Distinguished Service Medal, Defense Superior Service Medal, Legion of Merit, and Navy Achievement Medal.

Messrs. Chung, Hoffen and Hoffman serve on our Board of Directors as designated by Metalmark pursuant to the Securityholder Agreement. For more information regarding our Board of Directors, see "Corporate Governance—Controlled Company Exemption" below. The Securityholder Agreement also provides that our

Chief Executive Officer shall be nominated to the Board of Directors. The stockholders party to the Securityholder Agreement, including certain members of our senior management, have agreed to vote their shares of our common stock to elect these nominees for director.

CORPORATE GOVERNANCE

Controlled Company Exemption

Prior to the completion of a secondary offering of EnerSys common stock on July 5, 2007, our Board of Directors had determined that due to the beneficial ownership of over 50% of our common stock by the Institutional Stockholders, who are parties to the Securityholder Agreement, EnerSys was a "controlled company" for purposes of the corporate governance requirements of The New York Stock Exchange ("NYSE"). As such, our Board of Directors had elected to be exempted from the NYSE's requirements that a majority of our Board of Directors be independent directors and that all members of our Nominating and Corporate Governance Committee be independent directors. Following the completion of this secondary offering, the beneficial ownership of the Institutional Stockholders was reduced to less than 50% of our common stock, and, accordingly, EnerSys ceased to be a controlled company based on the NYSE's corporate governance requirements. Pursuant to the phase-in rules of the NYSE, EnerSys is required to be in full compliance with the NYSE's requirements for an independent Nominating and Corporate Governance Committee and a majority of independent directors by July 5, 2008, twelve-months from the date EnerSys ceased to be a controlled company. Effective June 12, 2008, Kenneth F. Clifford resigned from our Board of Directors. Effective upon Mr. Clifford's resignation, our Board of Directors, based upon the recommendation of our Nominating and Corporate Governance Committee, appointed Joseph C. Muscari as a member of our Board of Directors to serve as a Class III director with a term expiring at the 2010 annual meeting of stockholders. Effective July 4, 2008, Mr. Hoffen will resign as a member of our Nominating and Corporate Governance Committee. Effective upon Mr. Hoffen's resignation from the Committee, our Nominating and Corporate Governance Committee will consist solely of independent directors, and Metalmark, on behalf of the Institutional Stockholders, has temporarily waived the requirement that this Committee have at least three members. By taking such actions, EnerSys will be in full compliance with the corporate governance requirements of the NYSE.

Independence of Directors

Our Board of Directors determined that Messrs. Katsaros, Lehman, Mabus, Marlo and Muscari are independent from EnerSys and our management under the NYSE's listing standards. These standards are attached as Appendix A. The Board considered the NYSE standards, the fact that there were no transactions or arrangements between the directors and EnerSys, other than the consideration for serving as a director, and all other relevant facts and circumstances in making these independence determinations and concluded that there were no material relationships between either of Messrs. Katsaros, Lehman, Mabus, Marlo or Muscari and EnerSys.

Messrs. Chung, Hoffen and Hoffman are employees of Metalmark, which, together with the other Institutional Stockholders, pursuant to the Securityholder Agreement, and through the Subadvisory Agreement, was the controlling stockholder of EnerSys until July 5, 2007. As such, the three-year period of non-affiliation required for independence from EnerSys and our management is measured from such date. Therefore, Messrs. Chung and Hoffen may become "independent" after July 5, 2010, if the Board of Directors determines that the other indicia of independence described above are also met.

There are no family relationships among our directors or executive officers.

Access to Corporate Governance Documents

Our corporate governance information and materials, including our Corporate Governance Guidelines, charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee, and Code of Business Conduct and Ethics, are available on the Investor Relations page of our

website at www.enersys.com and any stockholder may obtain printed copies of these documents by writing to Investor Relations at: EnerSys, 2366 Bernville Road, Reading, Pennsylvania 19605, by e-mail at: investorrelations@enersys.com or by calling Investor Relations at (610) 236-4040. Information contained on the website is not incorporated by reference or otherwise considered part of this Proxy Statement.

Committees of our Board of Directors

Our Board of Directors has an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee, each of which has the composition and responsibilities described below. Our Board of Directors, from time to time, may establish other committees.

Audit Committee

Since September 14, 2007, our Audit Committee consisted of Messrs. Marlo (Chairperson), Katsaros and Mabus. Prior thereto, the Audit Committee consisted of Messrs. Marlo (Chairperson), Katsaros and Lehman. The Board of Directors has determined that Mr. Marlo is an “audit committee financial expert,” as such term is defined in rules promulgated by the SEC under the Exchange Act. The Board of Directors has determined that Messrs. Katsaros, Mabus and Marlo are independent directors. Our Audit Committee held a total of nine (9) meetings in the fiscal year ended March 31, 2008, seven (7) of which were in person and two (2) of which were held telephonically.

The Audit Committee is responsible for:

- appointing, compensating and overseeing our independent registered public accounting firm (“independent auditors”);
- overseeing management’s fulfillment of its responsibilities for financial reporting and internal control over financial reporting; and
- overseeing the activities of our internal audit function.

For additional information, see “Audit Committee Report” herein and the Audit Committee Charter, which is available on the Investor Relations page of our website at www.enersys.com.

Compensation Committee

Effective as of April 1, 2007, our Board reconstituted our Compensation Committee such that it now consists solely of independent directors. Since September 14, 2007, our Compensation Committee consisted of Messrs. Lehman (Chairperson), Katsaros and Marlo. Prior to September 14, 2007, Mr. Marlo was the Chairperson of the Compensation Committee. The Board of Directors has determined that Messrs. Katsaros, Lehman and Marlo are independent directors.

The Compensation Committee is responsible for:

- reviewing and approving the compensation of our Chief Executive Officer (“CEO”) and executive officers other than the CEO;
- reviewing and consulting with the CEO on the selection of officers and evaluation of executive performance and other related matters; and
- administering our equity plans and other incentive compensation plans.

More specifically, the Compensation Committee has sole authority to set the base salaries and approve equity-based and incentive-based compensation for our CEO and our other named executive officers. It engages its own independent compensation consultant, currently Frederic W. Cook & Co., Inc., to review the compensation levels of executives at our peer companies, assess total compensation of our executives, and make

recommendations about changes in the compensation. The Compensation Committee also considers recommendations from our CEO with respect to the base salary of our named executive officers. The Compensation Committee utilizes a similar methodology for recommending director compensation and meeting fees, which are subject to Board approval.

This Committee held a total of five (5) meetings in the fiscal year ended March 31, 2008, four (4) of which were in person, and one (1) of which were held telephonically.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee (i) was, during fiscal year 2008, or had previously been, an officer or employee of EnerSys or our subsidiaries nor (ii) had any direct or indirect material interest in a transaction of EnerSys or a business relationship with EnerSys, in each case that would require disclosure under the applicable rules of the SEC. No other interlocking relationship existed between any member of the Compensation Committee or an executive officer of EnerSys, on the one hand, and any member of the compensation committee (or committee performing equivalent functions, or the full board of directors) or an executive officer of any other entity, on the other hand, requiring disclosure pursuant to the applicable rules of the SEC.

Nominating and Corporate Governance Committee

Since September 14, 2007, our Nominating and Corporate Governance Committee consisted of Messrs. Hoffen (Chairperson), Lehman and Mabus. Prior thereto, the Nominating and Corporate Governance Committee consisted of Messrs. Hoffen (Chairperson), Fry and Marlo, until Mr. Fry's resignation on July 31, 2007. Effective July 4, 2008, following Mr. Hoffen's resignation from the Committee, our Nominating and Corporate Governance Committee will consist of Messrs. Mabus (Chairperson) and Lehman. The Nominating and Corporate Governance Committee is responsible for identifying and recommending potential candidates qualified to become board members, recommending directors for appointment to board committees and developing and recommending to our Board of Directors a set of corporate governance principles. The Committee held a total of three (3) meetings in the fiscal year ended March 31, 2008, two (2) of which were in person, and one (1) of which was held telephonically.

Process for Selection of Director Nominee Candidates

The Nominating and Corporate Governance Committee believes that the minimum qualifications for serving as a director of EnerSys are that a candidate demonstrate, by significant accomplishments in his or her field, an ability to make a meaningful contribution to the Board of Directors' oversight of the business and affairs of EnerSys and have an impeccable record and reputation for honest and ethical conduct in his or her professional and personal activities. In addition, the Nominating and Corporate Governance Committee considers the following characteristics in reviewing director candidates:

- integrity and character;
- sound and independent judgment;
- breadth of experience;
- business acumen;
- leadership skills;
- scientific or technology expertise;
- familiarity with issues affecting global businesses in diverse industries; and
- diversity of backgrounds and experience.

In addition to these requirements, the Nominating and Corporate Governance Committee will also evaluate, in the context of the needs of the Board, whether the nominee's skills are complementary to the existing Board members' skills, and assess any material relationships with EnerSys or third parties that might adversely impact independence and objectivity, as well as such other criteria as the Nominating and Corporate Governance Committee determines to be relevant at the time. The Nominating and Corporate Governance Committee, Committee Chair and/or our Chief Executive Officer interview candidates that meet the criteria, and the Nominating and Corporate Governance Committee selects candidates that best suit the Board's needs. We may from time to time hire an independent search firm to help identify and facilitate the screening and interview process of director candidates.

Stockholders may recommend qualified persons for consideration by the Nominating and Corporate Governance Committee. Stockholders making a recommendation must submit the same information as that required to be included by us in our Proxy Statement with respect to nominees of the Board of Directors. The stockholder recommendation should be submitted in writing, addressed to EnerSys at 2366 Bernville Road, Reading, Pennsylvania 19605 (Attn: Richard W. Zuidema, Executive Vice President—Administration and Secretary).

The Nominating and Corporate Governance Committee's evaluation process does not vary based on whether or not a candidate is recommended by a stockholder. The Nominating and Corporate Governance Committee will also review the performance as a director of any person already serving on the Board of Directors of EnerSys in determining whether to recommend that the Director be re-nominated.

Charters of the Committees of the Board of Directors

The Audit Committee, Nominating and Corporate Governance Committee, and Compensation Committee each operate pursuant to a written charter adopted by the Board of Directors. Each Committee reviews its charter at least annually. Copies of the charters are available on the Investor Relations page of our website at www.enersys.com or in print upon request. See "Corporate Governance—Access to Corporate Governance Documents."

Director Attendance at Board, Committee and Annual Meetings

Our Corporate Governance Guidelines provide that directors are expected to attend meetings of the Board and meetings of the committees on which they serve. During our fiscal year 2008, the Board of Directors met a total of four (4) times. Each director attended at least 75% of the total number of meetings of the Board and its committees on which the director served during the fiscal year, based on the number of such meetings held during the period for which each person served as a director or on a committee. It is our policy that directors are invited to the Annual Meeting but are not required to attend. The Chairman of the Board attended the 2007 annual meeting of stockholders.

Executive Sessions of Non-Management Directors

The Board has established a policy requiring non-management directors to meet in executive session periodically during the course of each year and has established procedures for determining which non-management director will serve as the presiding director for these executive sessions. The presiding director is designated by the Board of Directors. Mr. Hoffen has been designated as the presiding director for fiscal year 2009. In addition, it is expected that at least once a year the independent directors will meet in a separate executive session.

Communications with the Board of Directors

Stockholders and other interested parties, who desire to communicate directly with any member (or all members) of the Board, any Board committee or any chair of any such committee should submit such communication in writing addressed to the "Presiding Director" or "Non-Management Directors," at EnerSys,

P.O. Box 14145, Reading, Pennsylvania 19612 or by email to the Presiding Director or Non-Management Directors at presidingdirector@enersys.com. Communications intended for the full Board of Directors may be submitted in the same manner.

Stockholders, employees and other interested parties who desire to express a concern relating to accounting or auditing matters should communicate directly with our Audit Committee in writing addressed to the "Audit Committee Chair" at EnerSys, P.O. Box 14145, Reading, Pennsylvania 19612 or by e-mailing the Audit Committee at auditcommittee@enersys.com.

Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics that is applicable to our Chief Executive Officer, Chief Financial Officer and Controller, as well as our other officers, directors and employees. The code is available on the Investor Relations page of our website at www.enersys.com or in print upon request. See "Corporate Governance—Access to Corporate Governance Documents." Any amendment to, or waiver from, the Code for executive officers or directors will be disclosed on the Investor Relations page of our website at www.enersys.com.

DIRECTOR COMPENSATION

We believe that the amounts and form of compensation and the methods used to determine compensation of our non-employee directors are important ingredients in (i) attracting and retaining directors who are independent, interested, diligent and actively involved in overseeing EnerSys' affairs; and (ii) more substantially aligning the interests of our non-employee directors with the interests of our stockholders. We do not separately compensate the directors of our Board who are also employees.

Compensation Paid to Board Members

In fiscal year 2008, our Compensation Committee used Frederic W. Cook & Co., Inc., as an independent compensation consultant to the Compensation Committee, to study a peer group of companies, which peer group is the same group that the Compensation Committee used to recommend the compensation of our named executive officers as we describe on page 17, to assist the Compensation Committee in setting the compensation of our non-employee directors, for fiscal year 2008 and 2009. Based in part on this study, the Compensation Committee recommended, and the Board approved an increase in the annual retainer to \$50,000 in cash, as well as an increase in the meeting and other fees to the amounts set forth below:

- In-person board meetings—\$1,500 each
- Telephonic Board meetings—\$750 each
- In-person committee meetings—\$1,500 each
- Telephonic committee meetings—\$750 each
- Audit Committee Chairperson—\$10,000 per year
- Committee (non-Audit Committee) Chairperson—\$5,000 per year

Equity Compensation

Based in part on the recommendation of the Compensation Committee's compensation consultant, the Compensation Committee has determined that total non-employee director compensation should consist of a greater amount of equity-based compensation than was paid in previous years. For fiscal year 2008, the Compensation Committee recommended, and the Board approved, an award to each non-employee director of restricted stock units, with a fair market value on August 13, 2007 (the date of the award), of \$47,000 of our common stock. These

restricted stock units vest on September 13, 2008. For fiscal year 2009, the Board approved an award to each non-employee director of restricted stock units, with a fair market value on the date of the award of \$60,000 of our common stock. The fiscal year 2009 award will vest thirteen months from the date of award. We made these awards in accordance with our policy on granting equity awards, which we describe on page 23.

Director Deferred Compensation Plan

Under the EnerSys Voluntary Deferred Compensation Plan for Non-Employee Directors which we refer to as the "Director Plan," which was formerly called the EnerSys Stock Unit Deferred Compensation Plan for Directors, each non-employee director may defer receipt of all or a portion of the shares of stock payable due to vesting of the restricted stock units. Under the Director Plan, at a director's election, the shares otherwise payable, together with any dividends thereon, will be credited to a hypothetical bookkeeping account in the director's name and will be paid to the director in a lump sum at the time specified in the election or, if earlier, upon our change in control or the director's death.

Effective January 1, 2009, the Compensation Committee amended the Director Plan to permit each non-employee director to also defer receipt of all or a portion of any cash fees that are payable to the director for service on the Board. Participants may elect to allocate the deferred fees (i) into an investment account, which investment options will be a subset of the investment options available from time to time in our 401(k) retirement plan, or (ii) into a stock unit account, upon which the participant will be awarded stock units pursuant to one of our stockholder-approved equity compensation plans. If the director elects to allocate the deferred fees into the stock unit account, we will make an additional matching contribution in the amount of 20% of the deferred amount. Dividend equivalent units, if any, will be credited to each stock unit account. Each participant is 100% vested with respect to the amounts deferred to the stock unit deferral account. The matching contribution will be in the form of restricted stock units and will vest quarterly over one year from the date the units are credited to the account, except that participants will automatically become 100% vested in their matching contribution upon a change in control.

The Director Plan is a non-qualified deferred compensation plan. The rights of all participants to any deferred amounts represent our unsecured promise to pay and the deferred amounts remain subject to the claims of our creditors.

Stock Ownership Guidelines

We have implemented stock ownership guidelines under which we expect each non-employee director to beneficially own, over the next five years, shares of our common stock with a value equal to five times the annual director retainer (not including meeting or committee chair fees) paid to such director during the previous fiscal year. The Compensation Committee will measure stock ownership on an annual basis. We expect each director to attain the investment level within five years from May 1, 2008, or five years from the date the director first becomes a non-employee director, if later. Shares beneficially owned by the director as well as restricted stock units awarded for fiscal year 2009 and thereafter, whether vested or unvested, will be included in calculating ownership levels.

NON-EMPLOYEE DIRECTOR COMPENSATION FOR FISCAL YEAR 2008

The table set forth below summarizes the compensation that we paid to our non-employee directors for the fiscal year ended March 31, 2008. None of our non-employee directors received option awards, non-equity incentive plan compensation, pension, non-qualified deferred compensation, or any other compensation for the fiscal year ended March 31, 2008.

Name(1)	Fees Earned Paid in Cash	Stock Awards(2)	Total
Hwan-yoon F. Chung	\$56,000	\$47,000	\$103,000
Howard I. Hoffen	\$59,500	\$47,000	\$106,500
Michael C. Hoffman	\$56,000	\$47,000	\$103,000
Arthur T. Katsaros	\$69,500	\$47,000	\$116,500
John F. Lehman	\$62,967	\$47,000	\$109,967
Raymond E. Mabus, Jr.	\$42,334	\$47,000	\$ 89,334
Dennis S. Marlo	\$90,033	\$47,000	\$137,033
Former Directors			
Kenneth F. Clifford(3)	\$56,000	\$47,000	\$103,000
Eric T. Fry(4)	\$19,667	\$47,000	\$ 66,667

- (1) On March 31, 2008, each of our non-employee directors held 2,478 unvested restricted stock units. In addition, on March 31, 2008, each of Messrs. Hoffen, Hoffman, Lehman, and Marlo holds 5,000 vested stock options; and each of Messrs. Clifford, and Katsaros holds 2,500 vested stock options. Messrs. Chung, Clifford, Hoffen, and Hoffman hold such restricted stock units and stock options in connection with their respective employment arrangements with Metalmark. Pursuant to the terms of the Director Plan, which we describe above, Messrs. Katsaros and Marlo each elected to defer receipt of 100% of the common stock underlying their respective restricted stock units awards that each received for fiscal year 2008.
- (2) This value represents the accounting expense that we recognized for financial statement reporting purposes under SFAS 123(R) of the restricted stock units that we awarded to each non-employee director on August 13, 2007 (as we describe above). Assumptions used in the calculation of these amounts are included in the footnotes to our audited financial statements for the fiscal year ended March 31, 2008, included in our Annual Report on Form 10-K, which we filed on June 11, 2008.
- (3) Mr. Clifford resigned from the Board effective June 12, 2008.
- (4) Mr. Fry resigned from the Board effective July 31, 2007.

PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors of EnerSys has appointed Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2009. No determination has been made as to what action the Audit Committee would take if stockholders do not ratify the appointment.

Ernst & Young LLP conducted the audit of the financial statements of EnerSys and its subsidiaries for the fiscal year ended March 31, 2008. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting, will be given an opportunity to make a statement if they desire to do so, and will be available to answer appropriate questions from stockholders.

RECOMMENDATION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS ENERSYS' INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING MARCH 31, 2009.

AUDIT COMMITTEE REPORT

Background

The members of the Audit Committee are currently Directors Dennis S. Marlo (Chairperson), Arthur T. Katsaros and Raymond E. Mabus, Jr. The Board, in the exercise of its business judgment, has determined that each member of the Audit Committee is "financially literate" as required under the NYSE's listing standards and has determined that Mr. Marlo qualifies as the Committee's "audit committee financial expert" as defined in relevant SEC rules. During fiscal year 2008, the Audit Committee of the Board of Directors of EnerSys was composed of three directors, each of whom has been determined to be independent by our Board, consistent with the listing standards of the NYSE. For additional information relating to the responsibilities of the Audit Committee, see "Corporate Governance—Committees of our Board of Directors—Audit Committee."

Responsibility

Management is responsible for the preparation of financial statements and the integrity of the reporting process, including the system of internal and disclosure controls.

The independent auditors are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles in the United States.

The primary responsibilities of the Audit Committee are to select, engage, and compensate our outside independent auditors and to oversee the financial reporting process on behalf of the Board. It is not the duty of the Audit Committee to prepare financial statements and related disclosures. It is also not the duty of the Audit Committee to plan or conduct audits, or to determine that our financial statements are complete and accurate and in accordance with generally accepted accounting principles in the United States.

Process and Recommendation

In fulfilling its responsibilities, the Audit Committee reviewed and discussed the audited financial statements for the fiscal year ended March 31, 2008, with our management and independent auditors, including a discussion of the quality, not just the acceptability, of the accounting principles as applied in our financial reports, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. The Audit Committee discussed with our internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with management to discuss disclosure controls and procedures and internal control over financial reporting. The Audit Committee also meets with the internal and independent auditors, with and without our management present, to discuss the results of their examinations and overall quality of our financial reporting. The Audit Committee also reviewed with our CEO and CFO their certification relating to their evaluation of our disclosure controls, the completeness and accuracy of the financial statements and other financial information contained in the Form 10-K, and the process followed by the CEO and CFO to assure the truthfulness of such certificate.

The Audit Committee also discussed with the independent auditors, who are responsible for expressing an opinion on the conformity of those financial statements with generally accepted accounting principles, the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended. In addition, the Audit Committee has discussed with the independent auditors, the auditors' independence from EnerSys and its management, including the matters in the written disclosures and letters which were received by the Audit Committee from the independent auditors as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as amended. During the course of the year, the Audit Committee also reviewed and considered the compatibility of its independent auditors' performance of certain non-audit services with the maintenance of such auditors' independence.

Based on the process referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008.

Fees of Independent Auditors

The following tables sets forth the aggregate fees for the fiscal year ended March 31, 2008, and March 31, 2007, incurred for services provided by our independent registered public accounting firm, Ernst & Young LLP.

<u>Description of Fees</u>	<u>Year Ended</u>	
	<u>March 31, 2008</u>	<u>March 31, 2007</u>
Audit Fees , including fees associated with the annual audit of EnerSys and statutory audits required internationally, the reviews of EnerSys' quarterly reports on Form 10-Q and public offerings and for services provided in connection with the requirements of the Sarbanes-Oxley Act of 2002	\$3,516,400	\$3,709,683
Audit-Related Fees:		
Fees associated with target acquisitions and general accounting consultations	12,475	25,763
Tax Fees:		
Fees associated with income tax compliance, advice and planning	111,942	278,798
All Other Fees	0	0
Total	<u>\$3,640,817</u>	<u>\$4,014,244</u>

The Audit Committee considered whether the provision of non-audit services by our independent registered public accounting firm for the fiscal year ended March 31, 2008, was compatible with maintaining auditor independence. The Audit Committee pre-approved all fees for non-audit related services paid to our independent registered public accounting firm for fiscal years 2007 and 2008.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services by Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors. Under the policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. For each proposed service, the Audit Committee has received detailed information sufficient to enable the Audit Committee to pre-approve and evaluate such service. The Audit Committee may delegate pre-approval authority to one or more of its members. Any pre-approval decisions made under delegated authority must be communicated to the Audit Committee at or before the next scheduled meeting.

Appointment of Independent Registered Public Accounting Firm for Fiscal Year 2009

The Audit Committee appointed Ernst & Young LLP to conduct the audit of the financial statements of EnerSys and its subsidiaries for the fiscal year ended March 31, 2009. EnerSys stockholders are being asked to ratify the Audit Committee's appointment of Ernst & Young LLP as our independent registered public accounting firm at the Annual Meeting to which this Proxy Statement relates.

Audit Committee
Dennis S. Marlo, Chairperson
Arthur T. Katsaros
Raymond E. Mabus, Jr.

EXECUTIVE OFFICERS

Our current executive officers, and certain information regarding them (other than Mr. Craig, whose information is included under "Board of Directors") are listed below. All data is as of June 17, 2008.

Michael T. Phillion, age 56, Executive Vice President—Finance and Chief Financial Officer. Mr. Phillion has served as Executive Vice President—Finance and Chief Financial Officer since November 2000. He started with the Company's predecessor in 1994. Mr. Phillion is a certified public accountant. He received his Bachelor of Science degree in Accounting from Pennsylvania State University.

Richard W. Zuidema, age 59, Executive Vice President—Administration and Secretary. Mr. Zuidema has served as Executive Vice President—Administration and Secretary since March 2002. From November 2000 until March 2002, Mr. Zuidema was Executive Vice President—Administration and International. He started with the Company's predecessor in 1998. Mr. Zuidema received his Master of Business Administration degree from the University of Buffalo and his Bachelor of Sciences degree in Business Administration and Finance from the State University of New York.

John A. Shea, age 45, Executive Vice President—Americas. Mr. Shea has served as Executive Vice President—Americas since February 2005. Prior thereto, Mr. Shea served as Executive Vice President—Motive Power Americas since March 2002. From November 2000 to March 2002, he served as Executive Vice President—Motive Power. He started with the Company's predecessor in 1987. Mr. Shea received his Bachelor of Arts degree in Business Administration with majors in Marketing and Human Resource Management from California State University.

Raymond R. Kubis, age 54, President—Europe. Mr. Kubis has served as President—Europe, since March 2002. From October 1998 to March 2002, Mr. Kubis was Vice President, General Manager, Motive Power, for the Energy Storage Group of Invensys plc. Mr. Kubis received his Master of Business Administration degree from The Wharton School of the University of Pennsylvania and his Bachelor of Science degree in Accounting from the University of Illinois.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Compensation Policy

Our executive compensation program is structured and administered to support our vision, which is to be the global leader in our chosen markets for stored energy solutions, while maximizing stockholder value. We also structure the program to link executive compensation to our financial performance and, through programs that use our common stock as a compensation medium, to more closely align the interests of executive management with those of our stockholders.

We generally base our executive compensation program on the same objectives that guide us in establishing compensation programs for all our employees:

- Compensation should align the interests of higher-level employees with the long-term interests of our stockholders through award opportunities that result in ownership of a significant amount of our common stock.
- Compensation should reward teamwork. Because our success depends on our ability to optimize our worldwide business, our compensation programs emphasize our total results rather than geographic or product line results.
- Compensation should be based on the level of job responsibility, as well as individual and corporate performance. As employees progress to higher levels in the organization, an increasing proportion of their pay should be linked to corporate performance and stockholder returns because they are more able to affect corporate results.

- Compensation should reflect the value of the job in the marketplace. To attract and retain a skilled work force, we must remain competitive with the pay of other employers who compete with us for talent.
- Compensation should foster the long-term focus required for success in our industry. While all of our key employees receive a mix of both annual and longer-term incentives, employees at higher levels have an increasing proportion of their compensation tied to longer-term performance because these employees are in a position to have greater influence on longer-term results.
- To be effective motivation, performance-based compensation programs should enable employees to easily understand how their efforts can affect their pay, both directly through individual performance accomplishments and indirectly through contributing to our achievement of its strategic and operational goals.
- The programs and individual pay levels will always reflect differences in job responsibilities, geographies, and marketplace considerations, the overall structure of compensation and benefit programs should be broadly similar across the organization.

Determination of Compensation

The Compensation Committee reviews each named executive officer's base pay, bonus, and equity incentive compensation annually, with the guidance of the Compensation Committee's independent compensation consultant, Frederic W. Cook & Co., Inc. The Compensation Committee takes into account a number of factors to determine the compensation for the named executive officers and to ensure that our executive compensation program is achieving its objectives. Among those are:

- *Assessment of Corporate Performance.* The Compensation Committee uses corporate performance measures in two ways. First, in establishing total compensation ranges, the Compensation Committee considers various measures of corporate and industry performance, including sales growth, stock price, EBITDA, and net income. Second, as we describe in more detail below, the Compensation Committee has established specific corporate performance measures that determine the size of payments under our Management Incentive Plan.
- *Assessment of Individual Performance.* Individual performance affects the compensation of all employees, including the CEO and the other named executive officers. Beginning in fiscal year 2007, the Compensation Committee adopted a formal evaluation process for our CEO. Each member of our Board provides a written, subjective evaluation of our CEO, on an anonymous basis, covering a broad range of criteria. The evaluations are summarized and the Compensation Committee considers them in setting the CEO's compensation. For each other named executive officers, the Compensation Committee receives a recommendation from the CEO and also exercises its judgment based on the Committee's interactions with the executive officer.
- *Benchmarking.* The Compensation Committee benchmarked our compensation programs in fiscal years 2007 and 2008 with a peer group consisting of the following companies, which companies are broadly similar with respect to industry (generally, manufacturers of electrical components and equipment) and size (based on revenues):

Ametek, Inc.
A.O. Smith Corporation
AVX Corporation
Baldor Electric Company
C&D Technologies, Inc.
Energizer Holdings
Exide Technologies
Franklin Electric
GrafTech

Hubbell Incorporated
Regal - Beloit Corporation
Spectrum Brands, Inc.
Thomas & Betts Corporation
Woodward Governor Company
Artesyn Technologies, Inc. (2007 only)
The Lamson & Sessions Co. (2007 only)
Tektronix, Inc. (2007 only)

The Compensation Committee compares each peer group company's executive compensation programs as a whole, and compares the pay of individual executives if the jobs are sufficiently similar to make the comparison

meaningful. In addition to the peer group, the Compensation Committee, with the assistance of the independent compensation consultant, also considers non-industry-specific compensation information on pay levels and compensation-delivery practices for similarly sized companies across more than 200 different industries excluding the financial services industry. The Compensation Committee uses this data primarily to ensure that our executive compensation program as a whole is competitive, meaning generally within the broad middle range of comparative pay of the comparison companies.

Components of Executive Compensation

Our executive compensation program is comprised of base salary, annual short-term incentive opportunities in the form of cash awards based upon our fiscal year performance, long-term incentive opportunities in the form of either options to acquire our common stock, restricted common stock or restricted common stock units, or any combination thereof. As more fully described in the section entitled "Deferred Compensation Plan," effective April 1, 2009, certain of our executives, including the named executive officers, may elect to defer receipt of all or a portion of their cash bonuses. In addition, we provide the named executive officers with the same employee benefits as we generally provide to our other U.S. employees and we also provide limited perquisites and personal benefits, as described in the footnotes following the Summary Compensation Table. Mr. Kubis receives substantially the same employee benefits as our other named executive officers, except that he, as we more completely describe in the footnotes following the Summary Compensation Table, receives an annual cost of living adjustment and certain additional perquisites to compensate him for working and living in Europe. We do not cover our named executive officers under any defined benefit pension or supplemental executive retirement plans.

In fiscal year 2007, Mr. Kubis worked and lived in Brussels, Belgium, and we paid him in Euros. For purposes of this Proxy Statement, we have converted the amounts of compensation that Mr. Kubis received in Euros in fiscal year 2007 to U.S. dollars using the exchange rate as of March 31, 2007, of \$1.34 per Euro. At the beginning of the second quarter of fiscal year 2008, Mr. Kubis relocated to Zurich, Switzerland in connection with the relocation of our European headquarters from Brussels. In fiscal year 2008, we paid Mr. Kubis partly in U.S. dollars, partly in Euros (for the time he worked in Brussels), and partly in Swiss francs (for the time he worked in Zurich). For the purposes of the Proxy Statement, we have converted the amounts of compensation that Mr. Kubis received in fiscal year 2008 and the amounts that he is entitled to receive in fiscal year 2009 using the exchange rates as of March 31, 2008, of \$1.5774 per Euro and \$1.0058 per Swiss franc. We converted the amounts that were paid or payable to Mr. Kubis in U.S. dollars from Swiss francs using a fixed exchange rate of \$0.8186 per Swiss franc pursuant to the terms of his employment agreement.

Base Salary

Base salary is the guaranteed element of an employee's annual cash compensation. The value of base salary reflects the employee's skill set and the market value of that skill set. The Compensation Committee generally considers whether each of our named executive officer's base salary should be increased based on individual performance with a view toward ensuring that the base salary is competitive with that of executives in peer companies with comparable roles and responsibilities.

With assistance from the Compensation Committee's independent compensation consultant, the Compensation Committee annually sets the base salary of our named executive officers. The Compensation Committee solicits the CEO's recommendation with respect to the base salaries of our named executive officers.

In establishing Mr. Craig's base salary for fiscal year 2007, the Compensation Committee applied the process described above. They noted that Mr. Craig's base salary was at the 75th percentile relative to our peer group, and, under Mr. Craig's leadership in fiscal year 2006, we outperformed our major competitors and achieved acceptable levels of profitability despite significant raw material cost pressures. In setting Mr. Craig's compensation for fiscal years 2008 and 2009, the Compensation Committee considered the success of our business and Mr. Craig's overall performance in the previous fiscal year as well as the recommendations of the independent compensation consultant.

The Compensation Committee reviewed similar considerations for each of the other named executive officers in determining each of their respective base salaries. The base salaries of Mr. Craig and each of the other named executive officers for fiscal years 2007, 2008, and 2009, are as follows:

<u>Name</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
John D. Craig	\$783,000	\$815,000	\$850,000
Michael T. Phillion	\$362,000	\$377,000	\$400,000
Richard W. Zuidema	\$363,000	\$378,000	\$400,000
John A. Shea	\$352,000	\$367,000	\$385,000
Raymond Kubis	\$430,140	\$522,793	\$543,367

Management Incentive Plan

Annually, under our Management Incentive Plan, which we refer to as the “MIP,” our executives, including the named executive officers may receive a cash bonus upon satisfaction of pre-established financial targets. Under the MIP, the Compensation Committee establishes a range of financial targets based on our corporate budget, which is subject to Board approval. The Compensation Committee established this annual cash bonus program to better align each participant’s goals with our profitability and net debt objectives for each year. Consistent with our compensation policy, individuals with greater job responsibilities had a greater portion of their total cash compensation tied to our corporate performance through the MIP.

Under the MIP, each participant has minimum, target, and maximum potential cash bonus payouts, which the Compensation Committee establishes at the beginning of each fiscal year. The Compensation Committee bases the potential payments on each participant’s job responsibilities and position within our corporate organization. The potential payouts are stated as a percentage of base salary, which percentage generally remains constant from year-to-year. In establishing the targets, significant consideration is given to our prior year’s performance and budget for the upcoming year. Satisfactory individual performance is a condition to payment. In the case of our CEO and our other named executive officers, a target bonus percentage is set in the respective individual’s employment agreement.

The Compensation Committee believes that this mix of performance measures will encourage employees to focus appropriately on improving both our balance sheet strength and net earnings. In setting the targets, the Compensation Committee emphasizes bottom-line earnings so that we can directly reward employees for their contributions. These performance measures are also effective motivators because they are easy to track and are easily understandable by the participants.

The Compensation Committee may adjust the earnings results on which bonuses under the MIP are determined to reflect the effect of certain extraordinary events. The adjustments are intended to ensure that award payments represent the underlying growth of our core business and are not artificially inflated or deflated due to such events in the applicable fiscal year. In addition, the Compensation Committee will adjust the average daily net debt goals through the application of a pre-established objective formula to reflect higher or lower than anticipated sales volume in the applicable fiscal year.

At the end of each fiscal year, the Compensation Committee, in the case of the CEO and other named executive officers, has discretion to adjust an award payout. The Compensation Committee did not exercise this discretion in fiscal years 2007 or 2008.

Fiscal Year 2007 MIP Targets and Payouts

The Compensation Committee considered the following when establishing the awards for fiscal year 2007:

- *Bonus Targets.* Mr. Craig’s minimum, target, and maximum bonus targets for fiscal year 2007 were 15%, 100%, and 170% of base salary, respectively. The other named executive officers’ minimum, target, and maximum bonus targets for fiscal year 2007 were 9%, 60%, and 102% of base salary, respectively.

- *Company Performance Measures.* For all participants in the MIP, including our CEO and named executive officers, the Compensation Committee established fiscal year 2007 performance measures based 70% on earnings per share (EPS) and 30% on average daily net debt (which is total long- and short-term corporate debt and capital lease obligations minus short-term investments held in the U.S.). The performance measures for fiscal year 2007, determined in connection with the approval of the applicable fiscal year budgets, were as follows:

<u>Measurement</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
EPS	\$ 0.78	\$ 0.80	\$ 1.20
Average Daily Net Debt	\$424.2 million	\$414.2 million	(N/A)

The bonuses paid to our CEO and named executive officers for fiscal year 2007 were 130% of bonus target because of above-target EPS achievement and above-target average daily net debt goal. Consistent with past practice and based on criteria established at the beginning of the performance period in accordance with the terms of the MIP as described above, the Compensation Committee adjusted the earnings results on which fiscal year 2007 bonuses were determined to eliminate the effect of expenses incurred in connection with a secondary offering and several unsuccessful acquisitions. Also in accordance with the MIP, we adjusted the average daily net debt goal to reflect higher than anticipated sales volume in fiscal year 2007.

Fiscal Year 2008 MIP Targets and Payouts

The Compensation Committee considered the following when establishing the awards for fiscal year 2008:

- *Bonus Targets.* Mr. Craig's minimum, target, and maximum bonus targets for fiscal year 2008 were 15%, 100%, and 170% of base salary, respectively. The other named executive officers' minimum, target, and maximum bonus targets for fiscal year 2008 were 9%, 60%, and 102% of base salary, respectively.
- *Company Performance Measures.* For all participants in the MIP, including our CEO and named executive officers, the Compensation Committee established fiscal year 2008 performance measures based 70% on EPS and 30% on average daily net debt (which is total long- and short-term corporate debt and capital lease obligations minus short-term investments held in the U.S.). The performance measures for fiscal year 2008, determined in connection with the approval of the applicable fiscal year budgets, were as follows:

<u>Measurement</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
EPS	\$ 0.84	\$ 0.93	\$ 1.40
Average Daily Net Debt	\$421.0 million	\$411.0 million	(N/A)

The bonuses paid to our CEO and named executive officers for fiscal year 2008 were 170% of bonus target because of above-target EPS achievement and above-target average daily net debt goal. Consistent with past practice and based on criteria established at the beginning of the performance period in accordance with the terms of the MIP as described above, the Compensation Committee adjusted the earnings results on which fiscal year 2008 bonuses were determined to eliminate the effect of expenses incurred in connection with three secondary offerings and the restructuring of our European operations. Also in accordance with the MIP, we adjusted the average daily net debt goal to reflect higher than anticipated sales volume in fiscal year 2008.

Fiscal Year 2009 MIP Targets

The Compensation Committee considered the following when establishing the potential awards for fiscal year 2009:

- *Bonus Targets.* Mr. Craig's minimum, target, and maximum bonus targets for fiscal year 2009 are 15%, 100%, and 200% of base salary, respectively. The other named executive officer's minimum, target, and maximum bonus targets for fiscal year 2009 are 9%, 60%, and 120% of base salary, respectively.

- *Company Performance Measures.* For all participants in the MIP, including our CEO and named executive officers, the Compensation Committee established fiscal year 2009 performance measures based 70% on EPS and 30% on average daily net debt (which is total long- and short-term corporate debt and capital lease obligations minus short-term investments held in the U.S.). The performance measures for fiscal year 2009 were determined in connection with the approval of the applicable fiscal year budgets. The Compensation Committee believes it set the minimum, target, and maximum performance measures for fiscal year 2009 such that the performance measures represent meaningful improvements for the organization and improved business performance and, therefore, are reasonably difficult to attain.

Long-Term Equity Incentive Compensation

The Compensation Committee has the ability to make various types of equity awards under our 2004 and 2006 Equity Incentive Plans to our employees, including the CEO and the other named executive officers. In addition, certain of our named executive officers have outstanding awards under our 2000 Equity Incentive Plan, which has expired by its terms. We generally award equity in the form of restricted stock units and options to purchase our common stock.

- Restricted stock unit awards provide employees with shares of our common stock if the employee remains employed by us or one of our subsidiaries for the vesting period. Generally, restricted stock units that we award to employees vest ratably over a four-year period (25% per year) and participants accrue dividend equivalent units from the date of award. First, because we do not provide our named executive officers with the ability to participate in a defined benefit pension plan or similar program, the Compensation Committee has determined to make equity awards that are not solely dependent on the appreciation of our common stock. Second, because we provide the same types of awards to all participating employees on a worldwide basis, restricted stock units provide certain tax and other advantages to our non-U.S. employees as compared to awards of restricted stock. We amended our 2006 Equity Incentive Plan to provide for minimum vesting periods for full value equity awards such as restricted stock and restricted stock units. Five percent of the number of shares issuable under the 2006 Equity Incentive Plan are not subject to this limitation.
- Stock options align our employees' interests with stockholders because options have value only if the stock price increases over time. Our stock options generally have 10-year terms and we grant all options with an exercise price equal to the fair market value of our common stock on the date of grant. The Compensation Committee grants stock options in order to encourage employees to focus on long-term growth. In addition, we intend stock options to help retain key employees because they generally vest ratably over a three- or four-year period and, if not exercised, are forfeited if the employee terminates employment before retirement. The vesting schedule also helps keep employees focused on long-term performance. To obtain value, the employee must remain employed with us or one of our subsidiaries until the options are vested and the stock price must have appreciated above the exercise price, which is the market price of our common stock on the grant date.

Fiscal Year 2008 Equity Awards

During fiscal year 2007, we did not award any equity incentive compensation to our CEO or other named executive officers. After the end of fiscal year 2007, however, the Compensation Committee, based in part on recommendations from its independent compensation consultant and in view of our earnings performance in fiscal year 2007 relative to our competitors despite continuing extreme raw material cost pressure, recommended certain of our key employees, including our CEO and other named executive officers be awarded equity compensation. To ensure that our key employees are properly focused on stockholder value and recognizing our lack of a defined benefit pension plan, the Compensation Committee decided that the awards would be in the form of 50% stock options and 50% restricted stock units, based on value.

In determining the value of awards for executives, in fiscal year 2008, the Compensation Committee's overall objective, based in part on the recommendation of the Compensation Committee's compensation consultant, was to set the combined values of the awards at a level that was approximately equivalent to the 75th percentile relative to the value of our competitor's long-term incentive grants. The Compensation Committee recommended, and the Board approved, the number of stock options and restricted stock units prior to the pre-established grant date. The Compensation Committee based the number of awards on a percentage of our capitalization. The Compensation Committee determined the valuation using the closing price of our common stock on the grant date, in accordance with our policy on granting equity awards, which we describe on page 23. The awards vest ratably over four years. The awards were as follows:

<u>Name</u>	<u>Number of Stock Options</u>	<u>Number of Restricted Stock Units</u>	<u>Total Value(1)</u>
John D. Craig	83,448	41,324	\$1,508,533
Michael T. Phillion	17,818	8,824	\$ 322,113
Richard W. Zuidema	17,818	8,824	\$ 322,113
John A. Shea	17,818	8,824	\$ 322,113
Raymond Kubis	17,818	8,824	\$ 322,113

- (1) The total value is the sum of the value of the restricted stock units and stock options determined as of May 29, 2007, the date of grant. The value of each restricted stock unit was \$18.25, the closing price of our common stock on the date of grant; and the value of each stock option on that date was approximately \$9.04, as determined using the Black-Scholes valuation method, which assumptions and value may be different from the value that we used for financial accounting purposes.

Fiscal Year 2009 Equity Awards

On May 1, 2008, the Compensation Committee approved equity awards to the named executive officers. The Compensation Committee determined a total value for each executive's awards based on a level that was approximately equivalent to the 75th percentile relative to the value of our competitor's long-term incentive grants. The Compensation Committee determined the valuation using the closing price of our common stock on the date of grant, in accordance with our policy on granting equity awards. The Compensation Committee awarded Mr. Craig an equity award with a value of \$2,500,000, and Messrs. Phillion, Zuidema, Shea, and Kubis each received an award with a value of \$700,000. Half of each named executive officer's award is in the form of stock options and the other half is in the form of restricted stock units. The stock options vest ratably over three years and the restricted stock units vest ratably over four years. Each named executive officer could elect to receive the value of his restricted stock unit award instead in the form of stock options. No named executive officer elected to receive stock options in lieu of the restricted stock unit portion of his award.

Deferred Compensation Plan

On May 1, 2008, the Compensation Committee adopted the EnerSys Voluntary Deferred Compensation Plan for Executives, which we refer to as the "Deferred Compensation Plan," under which participants who are among a select group of management and highly compensated employees may elect to defer receipt of all or a portion of any cash bonus payable to such participants with respect to a fiscal year. Under the Deferred Compensation Plan, which is effective April 1, 2009, each participant must make an irrevocable deferral election before the beginning of the fiscal year to which the cash bonus relates (or, in the case of "performance-based compensation," on or before six months before the end of such fiscal year). Participants can elect to receive distributions of their accounts in the Deferred Compensation Plan, either in a lump sum or in installments, (i) upon their termination of employment, (ii) on a specified date, or (iii) upon a change in control.

A participant may elect to allocate the deferred amounts into an investment account and select among various investment options upon which the rate of return of the deferred amounts will be based. The participants' investment accounts are adjusted periodically to reflect the deemed gains and losses attributable to the deferred

amounts. The specific investment options will be a subset of the investment options available, from time-to-time, in our 401(k) retirement plan. Each participant is always 100% vested in their investment accounts.

Alternatively, participants may elect to allocate the deferred amounts to a stock unit deferral account. All amounts allocated to the stock unit account are invested in restricted stock units awarded under one of our stockholder-approved equity compensation plans. If a participant elects to allocate the deferred amounts to the stock unit account, we will make an additional matching contribution in the amount of 20% of the deferred amount. Dividend equivalent units, if any, will be credited to each stock unit account. Each participant is 100% vested with respect to the amounts deferred to the stock unit deferral account. The matching contribution will vest over three years from the last date of the fiscal year to which the amounts relate, except that participants will automatically become 100% vested in their matching contribution upon a change in control.

The Deferred Compensation Plan is a non-qualified deferred compensation plan. The rights of all participants to any deferred amounts represent our unsecured promise to pay and the deferred amounts remain subject to the claims of our creditors.

Employee Benefits

We generally offer all our non-unionized U.S. employees, including the named executive officers, core employee benefits coverage. The benefits include medical and dental coverage, disability insurance, life insurance, and a discount program for our products. We also make a 401(k) retirement plan available to all eligible non-unionized U.S. employees as a means to save for retirement on a tax-advantaged basis. In addition, we provide a matching contribution under the 401(k) plan to all eligible participants.

Each of our employees, including the named executive officers, partially bears the cost of certain employee benefits.

Perquisites

We provide limited perquisites and personal benefits to our named executive officers. We provide these perquisites and personal benefits in order to compete and retain executive talent. You can find information about these perquisites in the footnotes to the summary compensation table.

Other Matters

Policy on Granting Equity Awards.

Effective beginning in fiscal 2008, we established a written policy on granting equity awards. The policy provides the authority for granting awards, the procedure for granting awards and how we determine the date of grant and exercise price, in the case of options, of such awards. The Compensation Committee has the authority to make all equity awards. In addition, within certain limitations, the Compensation Committee may delegate authority to our CEO to make awards to employees below the senior vice president level.

The exercise price of stock options is always the closing price of our stock on the grant date. This procedure provides assurance that the grant dates are not being manipulated to result in a price that is favorable to us or our employees. Except for awards to new hires, and subject to applicable local law, the grant date for option grants to all eligible employees, including executive officers, is on the first business day after the grant approval date that our stock trading window is open and that is not otherwise within our stock trading blackout policy. In the event of grants to new hires, the grants are effective on the first trading day of the month following the date of hire.

Hedging Prohibition

We do not permit our employees to hedge their economic exposures to our common stock that they own by engaging in transactions involving puts, calls, or other derivative securities, or zero-cost collars or forward sales contracts. We expect each employee to bear the full risks and rewards of stock ownership.

Tax Deductibility of Executive Compensation

We generally seek to maximize deductibility for tax purposes of all elements of compensation. The Compensation Committee reviews compensation arrangements in light of applicable tax provisions, including Code Sections 162(m) and 280G and may revise compensation plans and arrangements from time to time to maximize deductibility. The Compensation Committee may, however, approve compensation or compensation arrangements that do not qualify for maximum deductibility when the Compensation Committee deems it to be in our best interest. In fiscal years 2007 and 2008, no named executive officer received compensation that was not fully deductible.

Stock Ownership Guidelines

The Compensation Committee has adopted stock ownership guidelines for both executives and non-employee directors effective May 1, 2008. We intend the guidelines to align the interests of executives and non-employee directors with those of the stockholders and ensure that the executives and directors responsible for overseeing operations have an ongoing financial stake in our success. The stock ownership guidelines provide that we expect our CEO to attain and maintain an investment level in stock equal to five times his annual base salary. We expect the other named executive officers to attain and maintain an investment level equal to three times their annual base salary. We expect our vice presidents to attain and maintain an investment level equal to one times their annual base salary. We describe the stock ownership guidelines for our non-employee directors under "Director Compensation." We expect that each individual attain such investment levels within five years from May 1, 2008, or five years from the date a specified ownership level commences, if later. Shares beneficially owned by the individual and restricted stock units awarded for fiscal year 2009 and thereafter, whether vested or unvested, will be included in calculating ownership levels. We will measure the ownership levels on an annual basis.

COMPENSATION COMMITTEE REPORT

The Compensation Committee evaluates and establishes compensation for our named executive officers and oversees our equity incentive plans, the MIP, and our benefit and perquisite programs. Management has the primary responsibility for our financial statements and reporting process, including the disclosure of executive compensation. With this in mind, we have reviewed and discussed with management the Compensation Discussion and Analysis found on pages 16-24 of this report. The Compensation Committee is satisfied that the Compensation Discussion and Analysis fairly and completely represents the philosophy, intent, and actions of the Compensation Committee with regard to executive compensation. We recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008, for filing with the Securities and Exchange Commission.

Compensation Committee
John F. Lehman, Chairperson
Arthur T. Katsaros
Dennis S. Marlo

SUMMARY COMPENSATION TABLE

The following table summarizes the compensation earned in fiscal years 2007 and 2008 by our Chief Executive Officer, Chief Financial Officer, and our three most highly compensated executive officers, who we refer to as the “named executive officers.” We made no discretionary bonus payments to any of our named executive officers in fiscal years 2007 or 2008, and we did not maintain any defined benefit pension arrangements, or maintain deferred compensation plans for our named executive officers during fiscal years 2007 and 2008; accordingly we have omitted the “Bonus” and “Change in Pension Value and Non-Qualified Deferred Compensation Earnings” columns from the table.

Name and Principal Position	Year	Salary	Stock Awards(1)	Option Awards(1)	Non-Equity Incentive Plan Compensation(2)	All Other Compensation	Total
John D. Craig	2008	\$815,000	\$308,796	\$136,386	\$1,385,500	\$ 75,541(3)	\$2,721,223
Chairman, President, Chief Executive Officer and Director	2007	\$783,000	\$300,215	\$ 0	\$1,015,943	\$ 73,910	\$2,173,068
Michael T. Phillion	2008	\$377,000	\$ 89,304	\$ 29,120	\$ 384,540	\$ 34,256(4)	\$ 914,220
Executive Vice President-Finance and Chief Financial Officer	2007	\$362,000	\$109,446	\$ 0	\$ 281,817	\$ 30,841	\$ 784,104
Richard W. Zuidema	2008	\$378,000	\$ 89,304	\$ 29,120	\$ 385,560	\$ 26,080(5)	\$ 908,064
Executive Vice President-Administration and Secretary	2007	\$363,000	\$109,446	\$ 0	\$ 282,596	\$ 27,114	\$ 782,156
John A. Shea	2008	\$367,000	\$ 89,304	\$ 29,120	\$ 374,340	\$ 27,919(6)	\$ 887,663
Executive Vice President-Americas	2007	\$352,000	\$109,446	\$ 0	\$ 274,032	\$ 26,683	\$ 762,161
Raymond R. Kubis	2008	\$519,303	\$103,775	\$ 29,120	\$ 561,139	\$306,944(7)	\$1,520,281
President-Europe	2007	\$430,140	\$137,610	\$ 0	\$ 334,365	\$151,404	\$1,054,019

- (1) Represents the compensation costs of stock options, restricted stock, or restricted stock unit awards, as applicable, recognized for financial reporting purposes for the applicable fiscal year under SFAS 123(R), and not amounts actually received by the named executive officer. See “Note 16 Share-Based Payments—Stock Option, Restricted Stock and Other Stock Awards” to our consolidated financial statements set forth in our Annual Report on Form 10-K for the fiscal years ended March 31, 2007, and 2008, for the assumptions made in determining SFAS 123(R) values.
- (2) Represents annual incentive amounts paid to the named individuals under the MIP. We discuss the MIP in further detail in the section entitled “Management Incentive Plan.”
- (3) For fiscal year 2008, consists of our 401(k) plan contributions in the amount of \$11,313; life and disability insurance premiums in the amount of \$38,237; automobile expenses; club membership dues; personal use of company-provided automobile; and spousal travel expenses.
- (4) For fiscal year 2008, consists of our 401(k) plan contributions in the amount of \$11,313; automobile expenses; personal use of company-provided automobile; and club membership dues.
- (5) For fiscal year 2008, consists of our 401(k) plan contributions in the amount of \$11,313; automobile expenses; subscriptions and memberships; and personal use of company-provided automobile.
- (6) For fiscal year 2008, consists of our 401(k) plan contributions in the amount of \$11,313; automobile expenses; personal use of company-provided automobile; and spousal travel expenses.
- (7) For fiscal year 2008, consists of our 401(k) plan contributions in the amount of \$15,881; private school tuition for Mr. Kubis’s children in the amount of \$31,181; tax preparation and planning fees; automobile expenses in the amount of \$27,686; family travel expenses; membership expenses; housing allowance of \$53,229; cost of living adjustment in the amount of \$65,839; and relocation expenses of \$90,097.

Employment Agreements

Employment Agreement with Mr. Craig

We entered into an employment agreement with Mr. Craig on November 9, 2000. Mr. Craig's employment agreement is for a three-year term that is automatically extended on a daily basis to continue for three years from the date of such extension. Mr. Craig's employment agreement provides that we will nominate and use our best efforts to cause our stockholders to elect him as a director and as Chairman of the Board.

Mr. Craig's employment agreement also provides that he may not compete with our business or solicit any of our customers or employees for three years following termination of his employment. Under his employment agreement and contingent upon meeting goals that the Compensation Committee will establish, Mr. Craig is entitled to an annual target bonus of up to 100% of his base salary. See "Potential Payments upon Termination or Change in Control" for information about our obligations under Mr. Craig's employment agreement to provide certain payments to him upon his termination of employment.

Employment Agreements with Messrs. Philion, Zuidema, and Shea

We entered into employment agreements with each of Messrs. Philion, Zuidema, and Shea on November 9, 2000. Each of the agreements is substantially the same. Each employment agreement is for a two-year term that automatically extends on a daily basis to continue for two years from the date of such extension. These employment agreements provide generally that the executives may not compete with our business or solicit any of our customers or employees for two years following termination of employment. Under their respective employment agreements and contingent upon meeting goals established by the Compensation Committee, each of Messrs. Philion, Zuidema, and Shea is entitled to an annual target bonus of up to 60% of their respective base salaries. See "Potential Payments upon Termination or Change in Control" for information about our obligations under each of Messrs. Philion's Zuidema's, and Shea's employment agreements to provide certain payments to them upon their respective terminations of employment.

Agreements with Mr. Kubis

On January 8, 2002, we entered into a directorship agreement and a managing directorship agreement with Mr. Kubis with respect to his services as President-Europe. These directorship agreements were for two-year terms that we could extend at our option. We terminated these agreements effective June 30, 2007, in connection with the relocation of our European headquarters to Zurich, Switzerland from Brussels Belgium. As a result of this change, Mr. Kubis relocated to Zurich from Brussels and is now employed by our Swiss subsidiary, EH Europe GmbH, pursuant to a new employment agreement dated as of July 1, 2007. The new employment agreement is not for a specific term and provides that either party can terminate the agreement at any time, subject to the statutory notice requirement applicable to employers in Switzerland, and generally provides that Mr. Kubis may not compete with our business or solicit any of our employees for at least two years following termination of his employment.

Under his new employment agreement and contingent upon meeting goals established by the Compensation Committee, Mr. Kubis is entitled to an annual target bonus of up to 60% of his base salary. The employment agreement provides that Mr. Kubis is entitled to:

- the use of a company car or a car allowance;
- receive reimbursement for certain expenses that Mr. Kubis incurs as a result of being located outside of the United States, including reimbursement of school tuition for his children;
- air travel to and from the United States for Mr. Kubis and his spouse and children;
- tax preparation and consulting services;
- a housing allowance;

- certain cost of living adjustments; and
- income tax indemnification for any taxes paid by Mr. Kubis in excess of 30% of his total compensation.

See "Potential Payments upon Termination or Change in Control" for information about our obligations under Mr. Kubis' employment agreement to provide certain payments to him upon his termination of employment.

GRANTS OF PLAN-BASED AWARDS TABLE FOR FISCAL YEAR 2008

Name	Grant Date	Committee Action Date(1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(2)			All other stock awards: number of shares of stock or units (#)	All other option awards: number of securities underlying options (#)	Exercise or base price option awards (\$/Sh)	Grant date fair value of stock and option awards
			Threshold	Target	Maximum				
John D. Craig	N/A	N/A	\$122,250	\$815,000	\$1,385,500				
	5/29/07	4/02/07					83,448	\$18.25	\$667,584
	5/29/07	4/02/07				41,324			\$754,163
Michael T. Phillion	N/A	N/A	\$ 33,930	\$226,200	\$ 384,540				
	5/29/07	4/02/07					17,818	\$18.25	\$142,544
	5/29/07	4/02/07				8,824			\$161,038
Richard W. Zuidema	N/A	N/A	\$ 34,020	\$226,800	\$ 385,560				
	5/29/07	4/02/07					17,818	\$18.25	\$142,544
	5/29/07	4/02/07				8,824			\$161,038
John A. Shea	N/A	N/A	\$ 33,030	\$220,200	\$ 374,340				
	5/29/07	4/02/07					17,818	\$18.25	\$142,544
	5/29/07	4/02/07				8,824			\$161,038
Raymond R. Kubis	N/A	N/A	\$ 49,381	\$329,209	\$ 559,656				
	5/29/07	4/02/07					17,818	\$18.25	\$142,544
	5/29/07	4/02/07				8,824			\$161,038

- (1) We made all equity awards to the named executive officers in fiscal year 2008 in accordance with our policy on granting equity awards, which we describe on page 23.
- (2) The amounts shown in the columns are the threshold, target, and stretch goal (maximum) potential amounts that were payable under the MLP. No amounts were payable if threshold performance was not achieved for at least one performance goal. See the Compensation Discussion and Analysis for a discussion of the amounts actually earned for fiscal years 2007 and 2008.

OUTSTANDING EQUITY AWARDS AS OF MARCH 31, 2008

The following table sets forth the outstanding equity awards held by named executive officers at the end of the 2008 fiscal year. The year-end values set forth in the table are based on the \$23.92 closing price for our common stock on March 31, 2008, the last trading day of the fiscal year.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unearned Options	Option Exercise Price (\$ per share)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested
John D. Craig	227,358			\$10.82	11/9/2010	11,783(2)	\$281,849		
	64,609			\$29.36	11/9/2010	11,783(2)	\$281,849		
	86,155			\$21.91	11/9/2010	41,324(1)	\$988,470		
	164,827			\$21.91	03/22/12				
	594,626			\$10.82	03/22/12				
		83,448(1)		\$18.25	05/29/17				
Michael T. Phillion	28,657			\$10.82	11/9/2010	4,296(2)	\$102,760		
	25,821			\$29.36	11/9/2010	4,296(2)	\$102,760		
	34,428			\$21.91	11/9/2010	8,824(1)	\$211,070		
	117,760			\$10.82	03/22/12				
	65,957			\$21.91	03/22/12				
	42,158			\$16.24	03/22/09				
		17,818(1)		\$18.25	05/29/17				
Richard W. Zuidema	9,200			\$ 3.74	11/9/2010	4,296(2)	\$102,760		
	3,657			\$10.82	11/9/2010	4,296(2)	\$102,760		
	25,821			\$29.36	11/9/2010	8,824(1)	\$211,070		
	34,428			\$21.91	11/9/2010				
	237,760			\$10.82	03/22/12				
	65,957			\$21.91	03/22/12				
	42,158			\$16.24	03/22/09				
		17,818(1)		\$18.25	05/29/17				
John A. Shea	34,428			\$21.91	11/9/2010	4,296(2)	\$102,760		
	25,821			\$29.36	11/9/2010	4,296(2)	\$102,760		
	65,957			\$21.91	03/22/12	8,824(1)	\$211,070		
		17,818(1)		\$18.25	05/29/17				
Raymond R. Kubis	66,760			\$10.82	03/22/12	5,401(2)	\$129,192		
	122,158			\$16.24	03/22/09	5,401(2)	\$129,192		
	65,957			\$21.91	03/22/12	8,824(1)	\$211,070		
		17,818(1)		\$18.25	05/29/17				

(1) One-quarter vested on May 29, 2008, one-quarter vests on May 29, 2009, one quarter vests on May 29, 2010, and one quarter vests on May 29, 2011.

(2) One half vests on January 1, 2009, and one-half vests on January 1, 2010.

(3) Based on a closing stock price of our common stock of \$23.92 on March 31, 2008.

OPTIONS EXERCISED AND STOCK VESTED DURING FISCAL YEAR 2008

The following table sets forth the number of shares acquired upon exercising options and the vesting of stock awards by our named executive officers during fiscal year 2008.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise(1)	Number of Shares Acquired on Vesting	Value Realized on Vesting(2)
John D. Craig	776,656	\$5,483,054	11,783	\$294,104
Michael T. Philion	378,363	\$3,785,419	4,296	\$107,228
Richard W. Zuidema	285,492	\$2,746,341	4,296	\$107,228
John A. Shea	142,158	\$1,291,505	4,296	\$107,228
Raymond R. Kubis	171,000	\$1,670,508	5,400	\$134,784

(1) Values stated are taxable income of each exercise, calculated by subtracting the exercise cost from the fair market value at exercise.

(2) Based on December 31, 2007 (the last trading prior to the date the shares vested), closing price of \$24.96.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

As described above, all of our named executive officers have entered into employment agreements with us. Under the conditions described below, each of these agreements provides for certain payments upon a termination of employment.

We may terminate the employment of each of Messrs. Craig, Philion, Zuidema, Shea or Kubis for cause if any has been involved in the following: (i) the commission of a felony or crime involving moral turpitude; (ii) a knowing and intentional fraud; (iii) an act or omission that is materially injurious to us; or (iv) the willful and continued failure or refusal to substantially perform the executive's duties as our employee. In addition, Messrs. Craig, Philion, Zuidema, Shea, and Kubis may resign from employment at any time for any or no reason. If we were to terminate the employment of any of these executives for cause, or if any executives were to resign without good reason (as defined below), the executives would only be entitled to payment of their current base salary through the date of termination.

If we were to terminate the employment of Messrs. Craig, Philion, Zuidema, Shea, or Kubis without cause, or if any of them were to resign for good reason (as defined below), we would be obligated to pay the following:

- continuation of current base salary for three years for Mr. Craig and two years for Messrs. Philion, Zuidema, Shea, and Kubis (such payment periods are referred to as the "severance period");
- for the fiscal year in which the termination occurs and for each whole fiscal year following the termination year included in the severance period, an amount equal to the average of the bonuses paid to the executives for the two fiscal years preceding the termination year (or for any partial fiscal year immediately preceding the end of the severance period, a pro rata portion of such amount); and
- participation in all employee welfare benefit plans or programs, provided however, that such participation will cease when the executives become eligible to participate in comparable programs of a subsequent employer.

In addition, upon Mr. Craig's termination of employment, for any reason other than a termination for cause, termination without good reason, or termination due to death, we will assign to Mr. Craig all right, title, and interest in and under certain individual disability and split dollar life insurance policies that we maintain on his behalf.

Mr. Kubis is also entitled to receive one-half of the cost of tax preparation services for the year of termination in the event his employment is terminated for any reason other than a voluntary resignation.

Notwithstanding the foregoing, either party may give the other party notice not to extend the employment term beyond: (a) three years from the date of such notice, in the case of Mr. Craig, or (b) two years from the date of such notice, in the case of Messrs. Phillion, Zuidema, or Shea. Additionally, if less than three years remain until Mr. Craig reaches age 65 or if less than two years remain until Messrs. Phillion, Zuidema, Shea, or Kubis reach age 65, the severance period will be the period from the date of termination until the date the executives reach age 65.

"Good reason" means, with respect to Messrs. Craig, Phillion, Zuidema, and Shea, any of the following:

- a decrease in base salary;
- a material diminution of authority, responsibilities, or position of the executive;
- a relocation to any office location that is more than 50 miles from Reading, Pennsylvania; or
- our giving notice that we intend to discontinue the automatic extension of the employment agreement.

"Good reason" means, with respect to Mr. Kubis, any of the following:

- any reason entitling Mr. Kubis to terminate the agreement under applicable Swiss law;
- a decrease in base salary;
- a material diminution of Mr. Kubis' authority, responsibilities, or positions; or
- relocation from Zurich, Switzerland, except that, upon 90 days prior to notice and our undertaking to pay reasonable relocation expenses, we can relocate Mr. Kubis to another location in Western Europe.

The employment agreements for each of the executives provide that if any amounts payable (whether pursuant to their respective employment agreements or otherwise) are subject to excise tax under Code Section 4999, we will provide the executives with a tax gross-up payment such that, after payment of any excise tax on the underlying payment and all taxes on the gross-up payment, the executives would retain an amount before payment of income and employment taxes equal to the underlying payment. Except for acceleration of the vesting of unvested equity awards, no special benefit is payable to our named executive officers solely in the event of a change in control.

In the event we terminate the employment of Messrs. Craig, Phillion, Zuidema, or Shea due to death or disability, each is entitled to receive one year of base salary in the event of death and six months of base salary, in the event of disability. If Mr. Kubis is unable to perform his duties due to illness, accident, or any other cause through no fault of his own, we will continue to pay his base salary for up to six months, provided however, that such amount will be reduced by any payments by third parties under any accident or health or medical insurance policies.

Each named executive officer is entitled to full acceleration of vesting of outstanding equity awards in the event of:

- involuntary termination of employment without cause,
- voluntary termination of employment for good reason,
- our change in control,
- termination for disability, or
- death.

The tables below reflect the incremental amount of compensation payable to each of the named executive officers under various scenarios. The amounts shown below assume that such hypothetical termination or change in control is effective as of March 31, 2008. These amounts do not include benefits earned or vested as of March 31, 2008, or benefits provided under insurance or regular programs available to salaried employees generally. The actual amounts that are payable upon a named executive officer's termination of employment can be determined only at the time of any such event. Due to the number of factors that affect the nature and amount of any benefits provided upon a termination or change in control, any actual amounts paid or distributed may be higher or lower than the amounts set forth below. Factors that could affect these amounts include, among other things, the time of year the event occurs, our financial performance, and the age of the named executive officers at the time of the event.

Name	Payment Type	Change in Control	Termination for Disability	Involuntary Termination Not for Cause Voluntary Termination For Good Reason(1)		
				Death	Absent Change in Control	Following a Change in Control
John D. Craig	Severance	\$ 0	\$ 407,500	\$ 815,000	\$4,923,886	\$4,923,886
	Welfare benefits continuation(2)	\$ 0	\$ 0	\$ 0	\$ 136,048	\$ 136,048
	Value of insurance policies(3)	\$ 0	\$ 277,126	\$ 0	\$ 277,126	\$ 277,126
	Value of accelerated stock options	\$ 473,150	\$ 473,150	\$ 473,150	\$ 473,150	\$ 473,150
	Value of accelerated restricted stock and stock units	\$1,552,169	\$1,552,169	\$1,552,169	\$1,552,169	\$1,552,169
	Potential Excise Tax Gross-Up	\$ 0	N/A	N/A	N/A	\$ 0
	Total	\$2,025,319	\$2,709,945	\$2,840,319	\$7,362,379	\$7,362,379
Michael T. Phillion	Severance	\$ 0	\$ 188,500	\$ 377,000	\$1,269,576	\$1,269,576
	Welfare benefits continuation(2)	\$ 0	\$ 0	\$ 0	\$ 86,447	\$ 86,447
	Value of accelerated stock options	\$ 101,028	\$ 101,028	\$ 101,028	\$ 101,028	\$ 101,028
	Value of accelerated restricted stock and stock units	\$ 416,591	\$ 416,591	\$ 416,591	\$ 416,591	\$ 416,591
	Potential Excise Tax Gross-Up	\$ 0	N/A	N/A	N/A	\$ 0
	Total	\$ 517,619	\$ 706,119	\$ 894,619	\$1,873,641	\$1,873,641
Richard W. Zuidema ...	Severance	\$ 0	\$ 189,000	\$ 378,000	\$1,273,044	\$1,273,044
	Welfare benefits continuation(2)	\$ 0	\$ 0	\$ 0	\$ 98,395	\$ 98,395
	Value of accelerated stock options	\$ 101,028	\$ 101,028	\$ 101,028	\$ 101,028	\$ 101,028
	Value of accelerated restricted stock and stock units	\$ 416,591	\$ 416,591	\$ 416,591	\$ 416,591	\$ 416,591
	Potential Excise Tax Gross-Up	\$ 0	N/A	N/A	N/A	\$ 0
	Total	\$ 517,619	\$ 706,619	\$ 895,619	\$1,889,058	\$1,889,058
John A. Shea	Severance	\$ 0	\$ 183,500	\$ 367,000	\$1,235,498	\$1,235,498
	Welfare benefits continuation(2)	\$ 0	\$ 0	\$ 0	\$ 59,560	\$ 59,560
	Value of accelerated stock options	\$ 101,028	\$ 101,028	\$ 101,028	\$ 101,028	\$ 101,028
	Value of accelerated restricted stock and stock units	\$ 416,591	\$ 416,591	\$ 416,591	\$ 416,591	\$ 416,591
	Potential Excise Tax Gross-Up	\$ 0	N/A	N/A	N/A	\$ 0
	Total	\$ 517,619	\$ 701,119	\$ 884,619	\$1,812,677	\$1,812,677
Raymond R. Kubis	Severance	\$ 0	\$ 260,716(4)	\$ 0	\$1,644,912	\$1,644,912
	Welfare benefits continuation(2)	\$ 0	\$ 0	\$ 0	\$ 14,310	\$ 14,310
	Tax preparation	\$ 0	\$ 7,544	\$ 7,544	\$ 7,544	\$ 7,544
	Value of accelerated stock options	\$ 101,028	\$ 101,028	\$ 101,028	\$ 101,028	\$ 101,028
	Value of accelerated restricted stock and stock units	\$ 469,454	\$ 469,454	\$ 469,454	\$ 469,454	\$ 469,454
	Potential Excise Tax Gross-Up	\$ 0	N/A	N/A	N/A	\$ 0
	Total	\$ 570,482	\$ 838,741	\$ 578,025	\$2,237,247	\$2,237,247

- (1) For severance payment calculation, and time and form of such payment, see "Employment Agreements."
- (2) Present value of welfare benefits continuation. Assumes no increase in the cost of welfare benefits. Assumes no tax on welfare benefits provided during the severance period.
- (3) Cash surrender value as of March 31, 2008.
- (4) If executive is unable to perform his work due to illness, accident, or any other cause through no fault of his own, we will continue to pay his base salary for up to six months following termination.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Person Transaction Policy

Our Board recently adopted a written policy regarding related person transactions. As a general matter, it is our preference to avoid or minimize related person transactions. Under this policy, a director or executive officer must promptly report to the Corporate Secretary or General Counsel any potential transaction in which a Related Person (as defined by Item 404(a) of Regulation S-K) has or will have a direct or indirect material interest. Pursuant to this policy, EnerSys is not permitted to consummate or continue the Related Person transaction without the approval or ratification of the Audit Committee or, in certain situations, by the Chairman of the Audit Committee. Any director interested in a Related Person transaction must recuse himself from any such vote.

Indemnification

Delaware law, our certificate of incorporation and our bylaws contain limitation of liability provisions and provisions for indemnification of our directors and officers.

In addition, we have entered into an indemnification agreement with each of our directors and officers. Pursuant to this agreement, we will indemnify, to the fullest extent permitted by the Delaware General Corporation Law, each director or officer who is, or is threatened to be made, a party to any proceeding by virtue of the fact that such person is or was one of our directors or officers. Indemnification will be provided for all costs, judgments, penalties, fines, liabilities and amounts paid in settlement of any such proceeding and for expenses actually and reasonably incurred in connection with any such proceeding.

Directors and officers of EnerSys are also insured against certain liabilities for their actions, as such, by an insurance policy obtained by EnerSys. The premium for the fiscal year ended March 31, 2008, specifically for directors and officers, as individuals, was \$0.1 million.

Indemnity and Expense Agreement

We have agreed with each of the Morgan Stanley Funds, in an indemnity and expense agreement dated March 22, 2002, that, to the fullest extent permitted by law, none of such stockholders, or any of their respective partners or other affiliates, or their respective members, stockholders, directors, managers, officers, employees, agents or other affiliates, or any person or entity who serves at the request of any such stockholder on behalf of any person or entity as an officer, director, manager, partner or employee of any person or entity (referred to as indemnified parties), shall be liable to us for any act or omission taken or suffered by such indemnified party in connection with the conduct of our affairs or otherwise in connection with such stockholder's ownership of shares of our common stock, unless such act or omission resulted from fraud, willful misconduct or gross negligence by such indemnified party or any mistake, negligence, dishonesty or bad faith of any agent of such indemnified party.

We have also agreed with each Morgan Stanley Fund that, to the fullest extent permitted by law, we will indemnify each of such indemnified parties for any and all liabilities and expenses (including amounts paid in satisfaction of judgments, in compromises and settlements, as fines and penalties and legal or other costs and reasonable expenses of investigating or defending against any claim or alleged claim) of any nature whatsoever,

known or unknown, liquidated or unliquidated, that are incurred by such indemnified party and arise out of or in connection with our affairs, or any indemnified party's ownership of shares of our common stock, including acting as a director, manager or officer or its equivalent; provided that an indemnified party shall be entitled to indemnification only to the extent that such indemnified party's conduct did not constitute fraud, willful misconduct or gross negligence.

We have also agreed to pay, or reimburse, each Morgan Stanley Fund for all such stockholder's reasonable out-of-pocket fees and expenses incurred in connection with and related to such stockholder's ownership of shares of our common stock.

Relationship with Metalmark and Morgan Stanley

As of March 31, 2008, Morgan Stanley Senior Funding, Inc., a subsidiary of Morgan Stanley, acts as an agent under our senior secured credit facility. In connection with our March 2004 refinancing of our then existing credit agreements and related recapitalization, Morgan Stanley Senior Funding and EnerSys entered into a senior secured revolving credit facility, senior secured term loan B and a senior secured lien term loan. Morgan Stanley Senior Funding is not entitled to receive any ongoing fees or expense reimbursements for any services rendered under the credit agreements. Morgan Stanley Senior Funding is not committed to fund any portion of the senior secured term loan B and, accordingly, will not receive any amounts if any of those loans are prepaid. Since our 2006 fiscal year, EnerSys has paid no interest and fees to Morgan Stanley Senior Funding pursuant to these facilities.

Since the beginning of our 2006 fiscal year, EnerSys has not engaged any other affiliates of Morgan Stanley to provide any services for us.

The general partners of the Morgan Stanley Funds are wholly owned subsidiaries of Morgan Stanley. An affiliate of Metalmark manages MSCP IV, L.P. and MSCP IV 892, L.P. pursuant to the Subadvisory Agreement. In addition, under the Subadvisory Agreement, MSCI IV, L.P. is effectively obligated to vote or direct the vote and to dispose or direct the disposition of any of our shares owned directly by it on the same terms and conditions as MSCP IV, L.P. and MSCP IV 892, L.P.

Institutional Stockholders hold approximately 15.1% of the outstanding shares of our common stock. As a result of the Securityholder Agreement and the Subadvisory Agreement, Metalmark may be able to significantly influence our management and policies. In addition, Metalmark may be able to significantly influence matters requiring stockholder approval, including the election of our directors, the adoption of amendments to our certificate of incorporation and the approval of mergers and sales of all or substantially all our assets. Circumstances could arise under which the interests of Metalmark could be in conflict with the interests of our other stockholders. For more information, see "General Information—Metalmark and Our Institutional Stockholders" herein.

Securityholder Agreement

We entered into a securityholder agreement with MSCP Funds and our other equity holders dated as of November 9, 2000, providing for certain governance matters, restrictions on transfers of our equity interests by certain equity holders and certain registration rights. Prior to our initial public offering in 2004, we entered into an amended and restated securityholder agreement, which we refer to herein as the "Securityholder Agreement," with Metalmark and the Institutional Stockholders as well as with certain members of our senior management.

The Compensation Committee, in consultation with our Chief Executive Officer, from time to time, designates members of our senior management to be subject to the Securityholder Agreement whether or not such person is then employed by us. Currently, Messrs. John D. Craig, Michael T. Philion, Richard W. Zuidema, John A. Shea and Raymond R. Kubis (collectively, the "Management Securityholders") are subject to the Securityholder Agreement. The Management Securityholders own an aggregate of 2,242,195 outstanding shares

of our common stock and vested options to purchase an aggregate of 1,863,198 shares of common stock. Collectively, as of June 2, 2008, the Institutional Stockholders and Management Securityholders owned an aggregate of 9,712,756 outstanding shares of our common stock (including 60,144 shares of unvested restricted stock), constituting approximately 19.6% of our outstanding shares of common stock.

All significant decisions involving our company or our subsidiaries require the approval of our Board of Directors, acting by a simple majority vote. The Securityholder Agreement provides that our Board of Directors will consist of seven members, which may be increased to not more than nine members at the discretion of our Board of Directors and our chief executive officer will be a nominee for election to our Board of Directors. The Securityholder Agreement and the Subadvisory Agreement permits Metalmark, until the Institutional Stockholders cease to own at least 15% of our outstanding common stock, to designate such number of nominees for election to our Board of Directors, which, when taken together with the sitting directors designated by Metalmark, is proportionate to the aggregate percentage of our outstanding common stock held by Institutional Stockholders at the time of election of such nominees. For information on voting by parties to the Securityholder Agreement, see "General Information—Metalmark and Our Institutional Stockholders" and "Corporate Governance" herein. Such rights are subject to any listing requirement of the NYSE on which the shares of our common stock trade, and to any other requirements of the Exchange Act, which may require that some of such nominees and committee members be "independent," as such term is defined in Rule 10A 3(b)(i) under the Exchange Act or otherwise.

We have agreed that the MSCP Funds, the J.P. Morgan Funds and the GM Stockholders have the ability, subject to certain exceptions, to require us to register the shares of common stock held by parties to the Securityholder Agreement in connection with the resale of such shares, so long as the aggregate market value of the shares to be registered is at least \$50 million, in the case of requests involving an underwritten public offering, or \$15 million, in the case of any other public offering. In addition, each party to the Securityholder Agreement will have the ability to exercise certain "piggyback" registration rights in connection with other registered offerings by us. We have agreed to pay all registration expenses in connection with the exercise of the registration rights included under the Securityholder Agreement. In addition, we have agreed to indemnify the parties to the Securityholder Agreement who exercise their registration rights against certain liabilities, including under the Securities Act.

Employment of Related Parties

Mr. Michael Shea, brother of Mr. John Shea, Executive Vice President, Americas, and Mr. Thomas Larkin, brother-in-law of Mr. John Shea, were both employed by one of our subsidiaries during fiscal year 2008. Mr. Michael Shea is employed as a General Manager and received total compensation (base salary plus bonus) of \$169,671 in fiscal year 2008, in addition to customary employee benefits. This compensation is inclusive of the 21% increase in base salary, resulting from his April 1, 2007, promotion to General Manager. On May 29, 2007, Mr. Michael Shea received 674 stock options and 334 restricted stock units, valued at \$12,191 on the date of grant, which grants were reported on our Proxy Statement for fiscal year 2007. On May 21, 2008, Mr. Michael Shea received 495 restricted stock units, valued at \$14,944 on the date of grant. Mr. Larkin is employed as a District Sales Manager and received total compensation (base salary plus bonus) of \$158,614 in fiscal year 2008, in addition to customary employee benefits. On May 29, 2007, Mr. Larkin received 434 stock options and 215 restricted stock units, valued at \$7,848 on the date of grant, which grants were reported on our Proxy Statement for fiscal year 2007. These transactions were ratified by our Audit Committee pursuant to our Related Person Transactions Policy.

Registration and Secondary Offerings

During fiscal year 2008, we paid approximately \$610,000 in professional and other fees in connection with a shelf registration statement and three (3) secondary offerings, relating to the sale of sixteen (16) million shares of our common stock by the Institutional Stockholders. Pursuant to the Securityholders Agreement, we are contractually obligated to pay such fees within the limits set forth therein.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors, and any persons owning more than ten percent of EnerSys common stock, to file reports of ownership and changes in ownership with the SEC and NYSE. Persons filing such reports are required by SEC regulation to furnish EnerSys with copies of all such reports filed with the SEC. Based solely on our review of any copies of such reports received by it, and on written representations from our existing directors and executive officers that no additional annual statements of beneficial ownership were required to be filed by such persons, we believe that all such statements were timely filed in fiscal year 2008 with the exception of a Form 3 for Raymond E. Mabus, Jr., reporting his beneficial ownership upon appointment as a director. The one (1) day delay was due to an administrative oversight.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Set forth below is certain information concerning the beneficial ownership of our common stock by each director, each nominee for director, each named executive officer, each holder of more than 5% percent of our common stock and all directors and executive officers as a group as of June 2, 2008, the Record Date.

<u>Name</u>	<u>Number of Shares(1)</u>	<u>Percent(1)</u>
Metalmark Capital LLC(2)(3)	5,632,357	11.4%
1177 Avenue of Americas		
New York, NY 10036		
Dimensional Fund Advisors LP(4)	3,432,075	6.9%
1299 Ocean Avenue		
Santa Monica, CA 90401		
AXA Financial, Inc.(5)	6,143,341	12.4%
1290 Avenue of the Americas		
New York, NY 10104		
Tontine Overseas Associates, LLC(6)	5,796,489	11.6%
55 Railroad Avenue		
Greenwich, CT 06830		
Hwan Yoon Chung(7)(8)	0	*
John D. Craig(9)	1,049,168	2.1%
Howard I. Hoffen(7)	5,679,034	11.5%
Michael C. Hoffman(7)	5,679,034	11.5%
Arthur T. Katsaros(10)	5,372	*
Raymond R. Kubis(11)	272,794	*
John F. Lehman(12)	7,872	*
Raymond E. Mabus, Jr.(13)	0	*
Dennis S. Marlo(14)	17,872	*
Robert Magnus(15)	0	*
Joseph C. Muscari	0	*
Michael T. Philion(16)	342,943	*
John A. Shea(17)	135,124	*
Richard W. Zuidema(18)	442,166	*
All current directors and executive officers as a group (13 persons)(19)	7,949,757	15.3%

* Does not exceed 1% of the class based on 49,596,280 shares of common stock outstanding as of June 2, 2008.

- (1) Beneficial ownership has been determined in accordance with Rule 13d-3 under Exchange Act, thereby including, with respect to each director and named executive officer, options exercisable by such owner within 60 days of the record date of June 2, 2008.
- (2) Metalmark, the Institutional Stockholders, certain members of our senior management and our company have entered into the Securityholder Agreement, which governs certain relationships among such parties. Metalmark and the Institutional Stockholders may be deemed to be a "group" for purposes of Section 13(d)(3) or Section 13(g)(3) of the Exchange Act and Rule 13d-5(b)(1) thereunder. For more information on the terms of, and the parties to, the Securityholder Agreement, see "Certain Relationships and Related Transactions—Securityholder Agreement" herein. The shares reflected in the table above do not include the 1,838,204 shares held collectively by MSCI IV L.P. (141,843 shares), the MSGEM Funds (535,693 shares), the J.P. Morgan Funds (624,977 shares) and the GM Stockholders (535,692 shares).
- (3) An affiliate of Metalmark manages MSCP IV, L.P. and MSCP IV 892, L.P. pursuant to the Subadvisory Agreement.
- (4) Information about Dimensional Fund Advisors LP is derived from its 13F Report filed with the SEC reporting ownership as of March 31, 2008.
- (5) Includes AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle, AXA Courtage Assurance Mutuelle, and AXA. Information about AXA Financial, Inc. is derived from its Amendment No. 1 to Schedule 13G/A filed with the SEC for the period ending February 29, 2008.
- (6) Includes Tontine Capital Partners, L.P., Tontine Capital Management, L.L.C., Tontine Partners, L.P., Tontine Management, L.L.C., and Jeffrey L. Gendell. Information about Tontine Overseas Associates, LLC is derived from its Amendment No. 1 to Schedule 13G/A filed with the SEC for the period ending February 27, 2008.
- (7) Messrs. Hoffen and Hoffman are Managing Directors of Metalmark and exercise shared voting or investment power over 5,679,034 shares, including 12,500 shares subject to vested stock options but excluding 9,912 unvested restricted stock units, beneficially owned by Metalmark. Messrs. Hoffen, Chung, and Hoffman disclaim beneficial ownership of such shares as a result of their respective employment arrangements with Metalmark, except to the extent that their pecuniary interest therein is ultimately realized.
- (8) Excludes 2,478 unvested restricted stock units.
- (9) Mr. Craig holds shared voting or investment power over 204,244 shares. The number and percentage of shares beneficially owned by Mr. Craig include 844,924 vested stock options and 23,566 shares of restricted stock but exclude 95,963 unvested restricted stock units and 187,212 unvested stock options.
- (10) Mr. Katsaros holds sole voting and investment power over 2,872 shares. The number and percentage of shares beneficially owned by Mr. Katsaros include 2,500 vested stock options but exclude 2,478 unvested restricted stock units.
- (11) Mr. Kubis holds shared voting or investment power over 27,465 shares. The number and percentage of shares beneficially owned by Mr. Kubis include 245,329 vested stock options and 10,802 shares of restricted stock but exclude 18,211 unvested restricted stock units and 48,259 unvested stock options. The number and percentage of shares beneficially owned by Mr. Kubis also includes 2,000 shares that Mr. Kubis holds indirectly as custodian for the account of his children.
- (12) Mr. Lehman holds sole voting and investment power over 12,872 shares. The number and percentage of shares beneficially owned by Mr. Lehman include 5,000 vested stock options but exclude 2,478 unvested restricted stock units.
- (13) Excludes 2,478 unvested restricted stock units.
- (14) Mr. Marlo holds sole voting and investment power over 12,872 shares. The number and percentage of shares beneficially owned by Mr. Marlo include 5,000 vested stock options but exclude 2,478 unvested restricted stock units.
- (15) Gen. Magnus will not become a director until July 18, 2008.
- (16) Mr. Philion holds shared voting or investment power over 23,708 shares. The number and percentage of shares beneficially owned by Mr. Philion include 319,235 vested stock options and 8,592 shares of restricted stock but exclude 18,211 unvested restricted stock units and 48,259 unvested stock options.
- (17) Mr. Shea holds shared voting or investment power over 104,849 shares. The number and percentage of shares beneficially owned by Mr. Shea include 30,275 vested stock options and 8,592 shares of restricted stock but exclude 18,211 unvested restricted stock units and 48,259 unvested stock options.

- (18) Mr. Zuidema holds shared voting or investment power over 18,731 shares. The number and percentage of shares beneficially owned by Mr. Zuidema include 423,435 vested stock options and 8,592 shares of restricted stock but exclude 18,211 unvested restricted stock units and 48,259 unvested stock options.
- (19) Such persons hold shared or sole voting or investment power over 6,056,559 shares. The number and percentage of shares beneficially owned by such persons include 1,893,198 vested stock options and 60,144 shares of restricted stock but exclude 188,631 unvested restricted stock units and 395,248 unvested stock options.

OTHER INFORMATION

Stockholder Proposals

Any stockholder who desires to submit a proposal for inclusion in the proxy materials relating to our 2009 Annual Meeting of Stockholders in accordance with the rules of the Securities and Exchange Commission must submit such proposal in writing, addressed to EnerSys at 2366 Bernville Road, Reading, Pennsylvania 19605 (Attn: Richard W. Zuidema, Secretary), no later than February 17, 2009.

In accordance with our bylaws, a stockholder who desires to propose a matter for consideration at an annual meeting of stockholders, even if the proposal is not submitted by the deadline for inclusion in our proxy materials, must comply with the procedures specified in our bylaws, including providing notice thereof in writing, delivered or mailed by first-class United States mail, postage prepaid, to the Secretary of EnerSys, not less than 90 days nor more than 120 days prior to the anniversary date of the previous year's annual meeting. For the 2009 Annual Meeting of Stockholders, this period will begin on March 19, 2009, and end on April 18, 2009.

Nominations for Election of Directors

In accordance with the Bylaws of EnerSys, a stockholder who desires to nominate candidates for election to the Board must comply with the proceeding specified in the Bylaws, including providing proper notice of the nomination in writing, delivered or mailed by first-class United States mail, postage prepaid, to the Secretary of EnerSys not less than 90 days nor more than 120 days prior to the anniversary date of the previous year's annual meeting. For the 2009 Annual Meeting of Stockholders, this period will begin on March 19, 2009, and end on April 18, 2009.

Reduce Duplicate Mailings

Only one Annual Report and Proxy Statement will be sent to those stockholders who share a single household and who have consented to receive a single copy of such documents. This practice, known as "householding," is designed to reduce printing and postage costs. Stockholders who participate in householding will continue to receive separate proxy cards. Householding will continue until you are notified otherwise or until one or more stockholders at your address revokes consent. If you revoke consent, you will be removed from the householding program within 30 days of receipt of the revocation. However, if any stockholder residing at such an address desires to receive a separate Annual Report or Proxy Statement in the future, he or she may telephone our Investor Relations Department at (610) 236-4040 or write to "Investor Relations" at 2366 Bernville Road, Reading, Pennsylvania 19605 or by e-mail at investorrelations@enersys.com. If you are receiving multiple copies of our Annual Report and Proxy Statement, please request householding by contacting Investor Relations in the same manner. If you are a stockholder of record, you can elect to access future Annual Reports and Proxy Statements electronically by marking the appropriate box on your proxy form or by following the instructions provided if you vote by Internet or by telephone. If you choose this option, your choice will remain in effect until you notify us by mail that you wish to resume mail delivery of these documents. If you hold your shares of our common stock through a bank, broker or another holder of record, refer to the information provided by that entity for instructions on how to elect this option.

Proxy Solicitation Costs

The proxies being solicited hereby are being solicited by the Board of Directors of EnerSys. The cost of soliciting proxies in the enclosed form will be borne by EnerSys. Officers and regular employees of EnerSys may, but without compensation other than their regular compensation, solicit proxies by further mailing or personal conversations, or by telephone, telex, facsimile or electronic means. We will, upon request, reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation material to the beneficial owners of stock.

Incorporation by Reference

In accordance with SEC rules, notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933, as amended, or the Exchange Act, that might incorporate this Proxy Statement or future filings made by us under those statutes, the information included under the caption "Compensation Committee Report" and those portions of the information included under the caption "Audit Committee Report" required by the SEC's rules to be included therein, shall not be deemed filed with the SEC and shall not be deemed incorporated by reference into any of those prior filings or into any future filings made by us under those statutes, except to the extent that we specifically incorporates these items by reference.

Annual Report for 2008

EnerSys' Annual Report to the Stockholders for the year ended March 31, 2008, is enclosed herewith. EnerSys' Annual Report on Form 10-K for the fiscal year ended March 31, 2008, has been combined with the Annual Report to Stockholders, as permitted by SEC rules. The Annual Report is furnished to stockholders for their information. No part of the Annual Report is incorporated by reference herein.

UPON REQUEST OF ANY STOCKHOLDER, A COPY OF OUR ANNUAL REPORT ON FORM 10-K FOR ITS FISCAL YEAR ENDED MARCH 31, 2008, INCLUDING A LIST OF THE EXHIBITS THERETO, REQUIRED TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 13a-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934, MAY BE OBTAINED, WITHOUT CHARGE, BY WRITING TO INVESTOR RELATIONS, ENERSYS, 2366 BERNVILLE ROAD, READING, PENNSYLVANIA 19605, OR BY CALLING ENERSYS INVESTOR RELATIONS DIRECTLY AT (610) 236-4040. EACH REQUEST MUST SET FORTH A GOOD FAITH REPRESENTATION THAT, AS OF THE RECORD DATE, THE PERSON MAKING THE REQUEST WAS A BENEFICIAL OWNER OF ENERSYS COMMON STOCK ENTITLED TO VOTE AT THE MEETING.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read "Richard W. Zuidema", written over a horizontal line.

Richard W. Zuidema
Secretary

ENERSYS
INDEPENDENCE STANDARDS

A director is independent if the Board has made an affirmative determination that such director has no material relationship with the Company that would impair his or her independent judgment (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). In the process of making such determinations, the Board will consider the nature, extent and materiality of the director's relationships with the Company and the Board will apply the following guidelines that are consistent with the independent requirements as defined under the NYSE Listing Standards. A director will be deemed not to be independent by the Board if the Board finds that:

- a. a director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer, of the Company;
- b. a director has received or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the Company, other than director fees and pension or other forms of deferred compensation for prior service;
- c. a director (i) is or has an immediate family member who is a current partner of a firm that is the Company's internal or external auditor; (ii) is a current employee of such a firm; (iii) has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (iv) was or has an immediate family member who was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time;
- d. a director is or has an immediate family member who is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee;
- e. a director is currently employed, or a director's immediate family member is currently employed as an executive officer, by an entity (including a tax-exempt entity) that makes payments to, or receives payments from, the Company for property or services (other than charitable contributions) in an amount that exceeds, in a single fiscal year, the greater of \$1 million or two percent of that entity's consolidated gross revenues; or
- f. a director, or a director's immediate family serves as an officer, director or trustee of a charitable organization, where the Company's discretionary contributions are in an amount that exceeds the greater of \$1 million or two percent of the charitable organization's consolidated gross revenues.

For purposes of this Appendix A, "immediate family member" includes a director's spouse, parents, children, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares the director's home; and "Company" includes any subsidiary in the consolidated group with the Company.

Appendix B
2008 Annual Report on Form 10-K

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

- ☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2008 or
- ☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number: 001-32253

ENERSYS

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

23-3058564
(I.R.S. Employer
Identification No.)

2366 Bernville Road
Reading, Pennsylvania 19605
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 610-208-1991

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common Stock, \$0.01 par value per share	Name of each exchange on which registered New York Stock Exchange
---	--

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ YES ☐ NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ YES ☒ NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ YES ☐ NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐
Non-accelerated filer ☐

Accelerated filer ☒
Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ YES ☒ NO

Aggregate market value of the voting and non-voting common stock held by nonaffiliates at September 30, 2007: \$464,815,772 (based upon its closing transaction price on the New York Stock Exchange on September 28, 2007).

Common stock outstanding at June 8, 2008: Common Stock 49,596,543 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on July 17, 2008, are incorporated by reference in Part III of this Annual Report.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of EnerSys. EnerSys and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and its reports to stockholders. Generally, the inclusion of the words "anticipates," "believe," "expect," "future," "intend," "estimate," "anticipate," "will," "plans," or the negative of such terms and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that EnerSys expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on management's then-current beliefs and assumptions regarding future events and operating performance and on information currently available to management, and are applicable only as of the dates of such statements.

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in this Annual Report on Form 10-K and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Annual Report on Form 10-K, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Annual Report on Form 10-K.

Our actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including the following factors:

- general cyclical patterns of the industries in which our customers operate;
- the extent to which we cannot control our fixed and variable costs;
- the raw material in our products may experience significant fluctuations in market price and availability;
- certain raw materials constitute hazardous materials that may give rise to costly environmental and safety claims;
- legislation regarding the restriction of the use of certain hazardous substances in our products;
- risks involved in foreign operations such as disruption of markets, changes in import and export laws, currency restrictions and currency exchange rate fluctuations;
- our ability to raise our selling prices to our customers when our product costs increase;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize their capacity;
- general economic conditions in the markets in which we operate;
- competitiveness of the battery markets throughout the world;
- our timely development of competitive new products and product enhancements in a changing environment and the acceptance of such products and product enhancements by customers;
- our ability to adequately protect our proprietary intellectual property, technology and brand names;
- unanticipated litigation and regulatory proceedings to which we might be subject;

- changes in our market share in the business segments and regions where we operate;
- our ability to implement our cost reduction initiatives successfully and improve our profitability;
- unanticipated quality problems associated with our products;
- our ability to implement business strategies, including our acquisition strategy, and restructuring plans;
- our acquisition strategy may not be successful in locating advantageous targets;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames;
- our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;
- our ability to maintain our existing credit facilities or obtain satisfactory new credit facilities.
- adverse changes in our short- and long-term debt levels under our credit facilities;
- our exposure to fluctuations in interest rates on our variable-rate debt;
- our ability to attract and retain qualified personnel;
- our ability to maintain good relations with labor unions;
- credit risk associated with our customers, including risk of insolvency and bankruptcy;
- our ability to successfully recover in the event of a disaster affecting our infrastructure; and
- terrorist acts or acts of war, whether in the United States or abroad, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability.

This list of factors that may affect future performance is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

EnerSys
Annual Report on Form 10-K
For the Fiscal Year Ended March 31, 2008

Index

	<u>Page</u>
PART I	
Cautionary Note Regarding Forward-Looking Statements	B-2
Item 1. Business	B-5
Item 1A. Risk Factors	B-12
Item 1B. Unresolved Staff Comments	B-17
Item 2. Properties	B-18
Item 3. Legal Proceedings	B-19
Item 4. Submission of Matters to a Vote of Security Holders	B-19
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	B-19
Item 6. Selected Financial Data	B-22
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	B-23
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	B-53
Item 8. Financial Statements and Supplementary Data	B-56
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	B-104
Item 9A. Controls and Procedures	B-104
Item 9B. Other Information	B-104
PART III	
Item 10. Directors and Executive Officers of the Registrant	B-105
Item 11. Executive Compensation	B-105
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	B-105
Item 13. Certain Relationships and Related Transactions	B-105
Item 14. Principal Accountant Fees and Services	B-105
PART IV	
Item 15. Exhibits and Financial Statement Schedules	B-106
Signatures	B-109

PART I

ITEM 1. BUSINESS

Overview

EnerSys (the "Company," "we," or "us") is the world's largest manufacturer, marketer and distributor of industrial batteries. We also manufacture, market and distribute related products such as chargers, power equipment and battery accessories, and we provide related after-market and customer-support services for industrial batteries. Industrial batteries generally are characterized as reserve power batteries or motive power batteries.

Reserve power products also are known as network, standby or stationary power batteries and are used primarily for backup power applications to ensure continuous power supply in case of main (primary) power failure or outage. Reserve power batteries are used primarily to supply standby direct current ("DC") operating power for:

- telecommunications systems, such as wireless, wireline and internet access systems, central and local switching systems, satellite stations and radio transmission stations;
- uninterruptible power systems ("UPS") applications for computer and computer-controlled systems, including process control systems;
- specialty power applications, including security systems, and for premium starting, lighting and ignition applications;
- switchgear and electrical control systems used in electric utilities and energy pipelines; and
- commercial and military aircraft, submarines and tactical military vehicles.

Motive power products are used to provide power primarily for electric industrial forklift trucks. They compete primarily with propane- and diesel-powered internal combustion engines used principally in the following applications:

- industrial forklift trucks in distribution and manufacturing facilities;
- mining equipment, including scoops, coal haulers, shield haulers, underground forklifts, shuttle cars and locomotives; and
- railroad equipment, including diesel locomotive starting, rail car lighting and rail signaling equipment;

History

EnerSys and its predecessor companies have been manufacturers of industrial batteries for over 100 years. Morgan Stanley Capital Partners teamed with the management of Yuasa, Inc. in late 2000 to acquire from Yuasa Corporation (Japan) its reserve power and motive power battery businesses in North and South America. We were incorporated in October 2000 for the purpose of completing the Yuasa, Inc. acquisition. On January 1, 2001, we changed our name from Yuasa, Inc. to EnerSys to reflect our focus on the energy systems nature of our businesses.

Today, our reserve power batteries are marketed and sold principally under the *PowerSafe*, *DataSafe*, *Hawker*, *Genesis*, *Odyssey*, *Varta* and *Cyclon* brands. Our motive power batteries are marketed and sold principally under the *Hawker*, *EnerSys Ironclad*, *General Battery*, *Fiamm Motive Power*, *Uranio*, *Oldham* and *Express* brands. We also manufacture and sell related direct current—DC—power products including chargers, electronic power equipment and a wide variety of battery accessories. Our battery products span a broad range of sizes, configurations and electrical capacities, enabling us to meet a wide variety of customer applications.

In August 2004, EnerSys completed an initial public offering (the "IPO"). The Company's Registration Statement (SEC File No. 333-115553) for its IPO was declared effective by the Securities and Exchange Commission on July 26, 2004. The Company's common stock commenced trading on the New York Stock Exchange on July 30, 2004, under the trading symbol "ENS."

We have expanded our product offerings and services globally through internal growth and acquisitions.

In March 2002, we acquired the reserve power and motive power business of the Energy Storage Group of Invensys plc. ("ESG"). In June 2005, we acquired the motive power battery business of FIAMM, S.p.A. (FIAMM), which complements our then existing European motive power business. We also made smaller acquisitions of a producer of specialty nickel-based batteries based in Germany; a producer of lithium power sources, primarily for aerospace & defense applications located in the USA; a lead-acid battery business in Switzerland; a manufacturing facility in China, and a 97% interest in a producer of industrial batteries, located in Bulgaria.

2008 restructuring plan

On May 23, 2007, we committed to the principal features of a plan to restructure certain of our European production and commercial operations. In part, the restructuring facilitated the integration of Energia AD into our worldwide operations. The restructuring was designed to improve operational efficiencies and eliminate redundant costs primarily attributable to the Energia transaction. Restructuring actions commenced upon the completion of the requisite consultations, and we expect it to be substantially completed by the end of fiscal 2009. In fiscal 2008, as a result of this restructuring, we incurred cash expenses of approximately \$9 million, primarily for employee severance-related payments, and non-cash expenses of approximately \$4 million, primarily for fixed asset write-offs.

Recent Developments

Sale of Manufacturing Facility

In May 2008, we announced that, as part of our ongoing European restructuring program, we sold our Manchester, England manufacturing facility at a net of tax gain of approximately \$8 million. This sale is consistent with our strategy to migrate our production to lower cost facilities.

Concurrent Public Offerings of Senior Convertible Notes and Common Stock and a Private Offering of a New Senior Secured Credit Facility

In May 2008, following the end of fiscal 2008, the Company completed the sale of \$172.5 million aggregate principal amount of senior unsecured convertible notes, and used the net proceeds of \$168.2 million to repay a portion of its existing senior secured Term Loan B. The senior unsecured convertible notes are potentially convertible at the option of the holders, at any time on or after March 1, 2015, but prior to the maturity date, into 24.6305 EnerSys common shares per \$1,000 in original principal amount of the notes, equivalent to \$40.60 per share or approximately 4.25 million common shares. It is our current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of EnerSys common stock or a combination of cash and shares. The notes will mature on June 1, 2038, unless earlier converted, redeemed or repurchased.

Concurrently with the convertible note offering, certain of our stockholders offered to sell, subject to market and other conditions, 3.4 million shares of EnerSys' common stock pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008. The offered shares were sold by several of our stockholders, including affiliates of Metalmark Capital LLC and certain other institutional stockholders. The selling stockholders granted the underwriters an option to purchase up to 0.34 million additional shares, of which 0.29 million shares were exercised and sold. A total of 3.69 million shares were sold as of May 28, 2008. We did not receive any proceeds from the common stock offering.

Also, immediately following the closing of the senior unsecured convertible note issue, we commenced refinancing the outstanding combined balance of the senior secured Term Loan B and our existing Revolver of approximately \$200 million, with a new \$350 million senior secured facility comprising Term A loans and a new Revolver. These planned refinancing transactions, which we expect to complete in June 2008, will strengthen our capital structure by adding senior unsecured convertible debt and a new senior secured debt facility that matures in 6 years.

Amendments of Credit Agreements

On May 16, 2008, EnerSys completed the Fifth Amendment to the \$480 million Senior Secured Credit Agreement which allowed for the issuance of up to \$205 million of unsecured indebtedness. The proceeds from the unsecured indebtedness must be used to pay down the senior secured Term Loan B. On May 28, 2008, EnerSys used the net proceeds of \$168.2 million from the senior unsecured convertible notes to pay down a portion of the senior secured Term Loan B.

On May 15, 2008, the Company amended its Euro 25 million Credit Agreement to allow for the issuance of up to \$205 million of unsecured indebtedness. The proceeds from the unsecured indebtedness must be used to pay down the senior secured Term Loan B. Additionally, the amendment authorized the Company to enter into a new \$350 million US Credit Agreement on terms substantially similar to the existing Credit Agreement.

Termination of Interest Rate Swap Agreements

In connection with the issuance of \$172.5 million of senior unsecured convertible notes, and the repayment of a portion of the senior secured Term Loan B in May 2008, we terminated \$30 million of interest rate swap agreements which had been placed in October, 2005 at a loss of \$1.4 million.

Fiscal Year Reporting

In this Form 10-K, when we refer to our fiscal years, we say “fiscal” and the year number, as in “fiscal 2008”, which refers to our fiscal year ended March 31, 2008. The Company reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four fiscal quarters in fiscal 2008 ended on July 1, 2007, September 30, 2007, December 30, 2007, and March 31, 2008, respectively. The four fiscal quarters in fiscal 2007 ended on July 2, 2006, October 1, 2006, December 31, 2006, and March 31, 2007, respectively. The four fiscal quarters in fiscal 2006 ended on July 3, 2005, October 2, 2005, January 1, 2006, and March 31, 2006, respectively. Financial information about segments and geographic areas is incorporated by reference from Note 24 of Notes to Consolidated Financial Statements in this Form 10-K.

Our Customers

We serve over 10,000 customers in over 100 countries, on a direct basis or through our distributors. We are not overly dependent on any particular end market or geographic region. No single customer accounts for more than 7% of our revenues.

Reserve Power

Our reserve power customers consist of regional customers as well as global customers. These customers are in diverse markets ranging from telecom to UPS, electric utilities, security systems, emergency lighting and premium starting, lighting and ignition applications. In addition, we sell our aerospace & defense products to numerous countries, including the governments of the U.S., Germany and the U.K. and to major defense and aviation original equipment manufacturers (“OEMs”).

Motive Power

Our motive power customers include a large, diversified customer base. These customers include material handling equipment dealers, OEMs and end users of such equipment. End users include manufacturers, distributors, warehouse operators, retailers, airports, mine operators and railroads.

Distribution and Services

Reserve Power

We distribute, sell and service reserve power products globally through a combination of company-owned offices, independent manufacturers' representatives and distributors managed by our regional sales managers. With our global manufacturing locations and regional warehouses, we believe we are well positioned to meet our customers' delivery and servicing requirements. We have targeted our approach to meet local market conditions, which we believe provides the best possible service for our regional customers and our global accounts.

Motive Power

We distribute, sell and service our motive power products throughout the world, principally through company-owned sales and service facilities, as well as through independent manufacturers' representatives. We believe we are one of the only battery manufacturers in the motive power battery industry that operates a primarily company-owned service network. This company-owned network allows us to offer high-quality service, including preventative maintenance programs and customer support. Our warehouses and service locations enable us to respond quickly to customers in the markets we serve. We believe that the extensive industry experience of our sales organization results in strong long-term customer relationships.

Manufacturing and Raw Materials

We manufacture and assemble reserve power and motive power batteries and related products at manufacturing facilities located in the Americas, Europe and Asia. We believe that our global approach to manufacturing has significantly helped us increase our market share during the past several years. With a view toward projected demand, we strive to optimize and balance capacity at our battery manufacturing facilities located throughout the world, while simultaneously minimizing our product cost. By taking a global view of our manufacturing requirements and capacity, we are better able to anticipate potential capacity bottlenecks and equipment and capital funding needs.

The primary raw materials used to manufacture our products include lead, plastics, steel and copper. We purchase lead from a number of leading suppliers throughout the world. Because lead is traded on the world's commodity markets and its price fluctuates daily, we enter into hedging arrangements from time to time for a portion of our projected requirements to reduce the volatility of these fluctuations.

Competition

The industrial battery market is highly competitive both among competitors who manufacture and sell industrial batteries and among customers who purchase industrial batteries. Our competitors range from development stage companies to major domestic and international corporations. We also compete with other energy storage technologies. We compete primarily on the basis of reputation, product quality, reliability of service, delivery and price. We believe that our products and services are competitively priced.

Reserve Power

We believe we have the largest market share for reserve power products on a worldwide basis. We compete principally with Exide Technologies, GS Yuasa, C&D Technologies, FIAMM, Coslight, and East Penn Manufacturing.

Motive Power

We believe we have the largest market share for motive power products on a worldwide basis. Our principal competitor, on a global basis, is Exide Technologies. On a regional basis, East Penn Manufacturing and Crown Battery Manufacturing Co. compete with us in North America, Hoppecke competes with us in Europe, and JSB, Shinkobe, GS Yuasa and Hitachi compete with us in Asia.

Warranties

Warranties for our products vary by geography and product and are competitive with other suppliers of these types of products. Generally, our reserve power products' warranties range from one- to twenty-years and our motive power products' warranties range from one- to seven-years. The length of our warranties is sometimes extended to reflect varied regional characteristics and competitive influences. In some cases, we may extend the warranty period to include a pro rata period, which is typically based around the design life of the product and the application served. Our warranties generally cover defects in workmanship and materials and are limited to specific usage parameters.

Intellectual Property

We have numerous patents and patent licenses in the United States and other jurisdictions but do not consider any one patent to be material to our business. From time to time we apply for patents on new inventions and designs. However, we believe that the growth of our business will depend primarily upon the quality of our products and our relationships with our customers, rather than the extent of our patent protection.

Although other manufacturers may possess certain thin-plate pure-lead technology ("TPPL"), we believe we are the only manufacturer of products using TPPL technology in the reserve power markets. Some aspects of this technology may be patented in the future. In any event, we believe that a significant capital investment would be required by any party desiring to produce products using TPPL technology for these markets.

We own or possess exclusive and non-exclusive licenses and other rights to use a number of trademarks in various jurisdictions. We have obtained registrations for many of these trademarks in the United States and other jurisdictions. Our various trademark registrations currently have a duration of approximately one to 10 years, varying by mark and jurisdiction of registration and may be renewable. We endeavor to keep all of our material registrations current. We believe that many such rights and licenses are important to our business by helping to develop strong brand-name recognition in the marketplace. Some of the significant (registered and unregistered) trademarks that we use include: *Armasafe+*, *Chloride*, *Cobra*, *Cyclon*, *DataSafe*, *Deserthog*, *Energy Plus*, *EnviroLink*, *ESB*, *Espace*, *EnerSys Ironclad*, *Express*, *FIAMM Motive Power*, *GBC*, *Genesis*, *Genesis NP*, *Genesis Pure Lead*, *Hawker*, *HUP*, *Hybernator*, *LifeGuard*, *LifePlus*, *Life Speed*, *Loadhog*, *Oasis*, *Odyssey*, *Oldham*, *Perfect*, *PowerGuard*, *PowerLease*, *Powerline*, *PowerPlus*, *PowerSafe*, *Smarthog*, *Superhog*, *Supersafe*, *Titan PowerTech*, *Uranio*, *Varta*, *Waterless* and *Workhog*.

Seasonality

Our business generally does not experience significant monthly or quarterly fluctuations in net sales as a result of weather or other trends that can be directly linked to seasonality patterns. However, our second fiscal quarter normally experiences moderate reductions in net sales as compared to our first fiscal quarter for that year, due to summer manufacturing shutdowns of our customers and holidays primarily in North America and Western Europe. That was the case in fiscal 2007 but, in fiscal 2008, each quarter was higher than the preceding quarter, primarily due to price recovery initiatives and the strengthening of other currencies against the U.S. dollar. Our fourth fiscal quarter normally experiences the highest sales of any fiscal quarter within a given year, as was the case in fiscal 2006, 2007 and 2008. Many reserve power telecommunications customers tend to perform extensive service and engage in higher battery replacement and maintenance activities in the first calendar quarter of a year, which is our fourth fiscal quarter. In addition, many of our largest industrial customers are on a calendar fiscal year basis and many tend to purchase their durable goods more heavily in that quarter than any other within the calendar year.

Product and Process Development

Our product and process development efforts are focused on the creation and optimization of new battery products using existing technologies, which, in certain cases, differentiate our stored energy solutions from that of our competition. We allocate our resources to the following key areas:

- the design and development of new products;
- optimizing and expanding our existing product offering;
- waste reduction;
- production efficiency and utilization;
- capacity expansion, without additional facilities; and
- quality attribute maximization.

Employees

At March 31, 2008, we had approximately 8,600 employees. Of these employees, approximately 3,600, almost all of whom work in our European facilities, were covered by collective bargaining agreements. The average term of these agreements is two years, with the longest term being three and one-half years. These agreements expire over the period from calendar years 2008 to 2009.

We consider our employee relations to be good. Historically, we have not experienced any significant labor unrest or disruption of production.

Environmental Matters

In the manufacture of our products throughout the world, we process, store, dispose of and otherwise use large amounts of hazardous materials, especially lead and acid. As a result, we are subject to extensive and changing environmental, health and safety laws and regulations governing, among other things: the generation, handling, storage, use, transportation and disposal of hazardous materials; emissions or discharges of hazardous materials into the ground, air or water; and the health and safety of our employees. In addition, we may in the future, be required to comply with the directive issued from the European Economic Union called Registration, Evaluation, Authorization and Restriction of Chemicals or "REACH," that entered into force on 1 June 2007. Under the directive, companies which manufacture or import more than one ton of a chemical substance per year will be required to register it in a central database administered by the new EU Chemicals Agency. REACH will require a registration, over a period of 11 years, of some 30,000 chemical substances. Compliance with these laws and regulations results in ongoing costs. Failure to comply with these laws and regulations, or to obtain or comply with required environmental permits, could result in fines, criminal charges or other sanctions by regulators. From time to time, we have had instances of alleged or actual noncompliance that have resulted in the imposition of fines, penalties and required corrective actions. Our ongoing compliance with environmental, health and safety laws, regulations and permits could require us to incur significant expenses, limit our ability to modify or expand our facilities or continue production and require us to install additional pollution control equipment and make other capital improvements. In addition, private parties, including current or former employees, could bring personal injury or other claims against us due to the presence of, or their exposure to, hazardous substances used, stored, transported or disposed of by us or contained in our products.

Certain environmental laws assess liability on owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances at their current or former properties or at properties at which they have disposed of hazardous substances. These laws may also assess costs to repair damage to natural resources. We may be responsible for remediating damage to our properties that was caused by former owners. Soil and groundwater contamination has occurred at some of our current and former properties

and may occur or be discovered at other properties in the future. We currently are investigating and monitoring soil and groundwater contamination at certain of our properties, and we may be required to conduct these operations at other properties in the future. In addition, we have been and in the future may be liable to contribute to the cleanup of locations owned or operated by other persons to which we or our predecessor companies have sent wastes for disposal, pursuant to federal and other environmental laws. Under these laws, the owner or operator of contaminated properties and companies that generated, disposed of or arranged for the disposal of wastes sent to a contaminated disposal facility can be held jointly and severally liable for the investigation and cleanup of such properties, regardless of fault.

Manchester, England

We currently have identified three potentially significant environmental issues resulting from historical operations at our Manchester, England battery facility: lead slag piles that may pose a health risk are located in the vicinity of a public footpath on the property; the potential restoration of the Manchester, Bolton and Bury Canal by British Waterways may lead to sampling and/or remediation obligations with respect to the canal and surrounding areas located on our property; and there may be multiple and as yet unidentified areas of soil and groundwater contamination at the facility. We believe we have a right to be indemnified by the previous owner for these potential environmental liabilities in excess of amounts accrued and submitted a notice of claim to the previous owner in May 2003 regarding these issues. No government or third-party lawsuits, regulatory actions or orders have been filed with respect to this site to date, and all our actions at this site to date are voluntary. We originally established a reserve for this facility at £3.5 million, and as of March 31, 2008, the remaining reserve approximated £3.3 million. This reserve was set up under purchase accounting. Based on the information available at this time, we believe this reserve is sufficient to satisfy these environmental liabilities. See "*Recent Developments*" above, regarding the sale of the Manchester, England facility, which was completed subsequent to our year end.

Sumter, South Carolina

We currently are responsible for certain environmental obligations at the former Yuasa battery facility in Sumter, South Carolina. This battery facility was closed in 2001 and is separate from our current metal fabrication facility in Sumter. Remediation issues related to lead contamination in the soil were addressed pursuant to a 1998 Consent Order with the State of South Carolina, and we believe this matter to be closed. We are subject to ongoing storm water inspection requirements under a 2000 Consent Order based on suspected lead contamination. We also are in periodic discussions with the State of South Carolina regarding alleged trichloroethylene (TCE) and other volatile organic compound (VOC) contamination in the groundwater that predates our ownership of this facility. There may be other unidentified contaminants in the soil or groundwater that also predate our ownership of this facility. We have established a reserve for this facility, and in fiscal 2008, we received \$1.1 million from a previous owner in settlement of their indemnification of potential environmental liabilities related to the Sumter facility. As of March 31, 2008, the reserves related to this facility and the removal of its remaining equipment totaled approximately \$4.0 million. Based on current information, we believe this reserve is adequate to satisfy our environmental liabilities at this facility.

Environmental and safety certifications

Eight of our facilities in the United States, Europe and Asia are certified to ISO 14001 standards. ISO 14001 is a globally recognized, voluntary program that focuses on the implementation, maintenance and continual improvement of an environmental management system and the improvement of environmental performance. Two facilities in Europe are certified to ISO 18000 standards.

Quality Systems

We utilize a global strategy for quality management systems, policies and procedures, the basis of which is the ISO 9001:2000 standard, which is a worldwide recognized quality standard. We believe in the principles of

this standard and reinforce this by requiring mandatory compliance for all manufacturing, sales and service locations that are registered to the ISO 9001 standard. This strategy enables us to provide effective products and services to meet our customers' needs.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These filings are available to the public on the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file with the SEC at the SEC's public reference room, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our Internet address is <http://www.enersys.com>. We make available free of charge on <http://www.enersys.com> our annual, quarterly and current reports, and amendments to those reports, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS

The following risks and uncertainties, as well as others described in this Annual Report on Form 10-K, could materially and adversely affect our business, results of operations and financial conditions and could cause actual results to differ materially from our expectations and projections. Stockholders are cautioned that these and other factors, including those beyond our control, may affect future performance and cause actual results to differ from those which may, from time to time, be anticipated. There may be additional risks that are not presently material or known. See "Cautionary Note Regarding Forward-Looking Statements." All forward-looking statements made by us or on our behalf are qualified by the risks described below.

We operate in an extremely competitive industry and are subject to continual pricing pressure.

We compete with a number of major international manufacturers and distributors, as well as a large number of smaller, regional competitors. Due to excess capacity in some sectors of our industry, consolidation among industrial battery purchasers and the financial difficulties being experienced by several of our competitors, we have been subjected to continual and significant pricing pressures. These pricing pressures have prevented us from fully passing increased material costs through to customers. We anticipate heightened competitive pricing pressure as Chinese and other foreign producers, able to employ labor at significantly lower costs than producers in the U.S. and Western Europe, expand their export capacity and increase their marketing presence in our major U.S. and European markets. Several of our competitors have strong technical, marketing, sales, manufacturing, distribution and other resources, as well as significant name recognition, established positions in the market and long-standing relationships with original equipment manufacturers and other customers. In addition, certain of our competitors own lead smelting facilities which, during periods of lead cost increases or price volatility, may provide a competitive pricing advantage and reduce their exposure to volatile raw material costs. Our ability to maintain and improve our operating margins has depended, and continues to depend, on our ability to control and reduce our costs. We cannot assure you that we will be able to continue to reduce our operating expenses, to raise or maintain our prices or increase our unit volume, in order to maintain or improve our operating results.

Cyclical industry conditions of our customers have adversely affected and may continue to adversely affect our results of operations.

Our operating results are affected by the general cyclical pattern of the industries in which our major customer groups operate and the overall economic conditions in which we and our customers operate. Both our reserve power and motive power segments are heavily dependent on the end-user markets they serve, such as telecommunications, UPS and electric industrial forklift trucks. A weak capital expenditure environment in these markets has had, and can be expected to have, a material adverse effect on our results of operations.

Our raw materials costs are volatile and expose us to significant movements in our product costs.

We use significant amounts of lead, plastics, steel, copper and other materials in our manufacturing processes. We estimate that raw material costs account for over half of our cost of goods sold. Lead is our most significant raw material. The costs of these raw materials, particularly lead, are volatile and beyond our control.

Volatile raw material costs can significantly affect our operating results and make period-to-period comparisons extremely difficult. We cannot assure you that we will be able to hedge the costs of our raw material requirements at a reasonable level or pass on to our customers the increased costs of our raw materials.

Our operations expose us to the risk of material environmental, health and safety liabilities, costs, and litigation.

In the manufacture of our products throughout the world, we process, store, dispose of and otherwise use large amounts of hazardous materials, especially lead and acid. As a result, we are subject to extensive and changing environmental, health and safety laws and regulations governing, among other things: the generation, handling, storage, use, transportation and disposal of hazardous materials; remediation of polluted ground or water; emissions or discharges of hazardous materials into the ground, air or water; and the health and safety of our employees. Compliance with these laws and regulations results in ongoing costs. Failure to comply with these laws or regulations, or to obtain or comply with required environmental permits, could result in fines, criminal charges or other sanctions by regulators. From time to time we have had instances of alleged or actual noncompliance that have resulted in the imposition of fines, penalties and required corrective actions. Our ongoing compliance with environmental, health and safety laws, regulations and permits could require us to incur significant expenses, limit our ability to modify or expand our facilities or continue production and require us to install additional pollution control equipment and make other capital improvements. In addition, private parties, including current or former employees, could bring personal injury or other claims against us due to the presence of, or exposure to, hazardous substances used, stored or disposed of by us or contained in our products.

Certain environmental laws assess liability on owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances at their current or former properties or at properties at which they have disposed of hazardous substances. These laws may also assess costs to repair damage to natural resources. We may be responsible for remediating damage to our properties that was caused by former owners. Soil and groundwater contamination has occurred at some of our current and former properties and may occur or be discovered at other properties in the future. We are currently investigating and monitoring soil and groundwater contamination at certain of our properties, and we may be required to conduct these operations at other properties in the future. In addition, we have been and in the future may be liable to contribute to the cleanup of locations owned or operated by other persons to which we or our predecessor companies have sent wastes for disposal, pursuant to federal and other environmental laws. Under these laws, the owner or operator of contaminated properties and companies that generated, disposed of or arranged for the disposal of wastes sent to a contaminated disposal facility can be held jointly and severally liable for the investigation and cleanup of such properties, regardless of fault.

We cannot assure you that we have been or at all times will be in compliance with environmental laws and regulations or that we will not be required to expend significant funds to comply with, or discharge liabilities arising under, environmental laws, regulations and permits, or that we will not be exposed to material environmental, health or safety litigation.

Legislation regarding the restriction of the use of certain hazardous substances in electrical and electronic equipment.

The European Union has directed that new electrical and electronic equipment not contain certain hazardous substances, including lead and cadmium. Because battery accessories and chargers are subject to this directive, our compliance with the directive directly impacts our manufacturing of these products and could cause certain

of our existing inventory to be obsolete. In addition, certain other jurisdictions outside the European Union have implemented, or plan to implement, similar restrictions with various compliance dates. We cannot assure you that we will meet all restrictions by each of the required dates. Inventory obsolescence and our failure to comply could each have an adverse effect on our financial results.

We are exposed to exchange rate risks, and our net income and financial condition may suffer due to currency translations.

We invoice foreign sales and service transactions in local currencies and translate net sales using actual exchange rates during the period. We translate our non-U.S. assets and liabilities into U.S. dollars using current rates as of the balance sheet date. Because a significant portion of our revenues and expenses are denominated in foreign currencies, changes in exchange rates between the U.S. dollar and foreign currencies, primarily the euro and British pound, may adversely affect our revenue, cost of revenue and operating margins. For example, foreign currency depreciation against the U.S. dollar will reduce the value of our foreign revenues and operating earnings as well as reduce our net investment in foreign subsidiaries. Over 60% of net sales were generated outside of North America.

Most of the risk of fluctuating foreign currencies is in our Europe operations, which comprised over half of our net sales during the last two fiscal years. The euro is the dominant currency in our European operations.

The translation impact from currency fluctuations on net sales and operating earnings in the Americas and Asia regions is minimal, as a substantial majority of these net sales and operating earnings are in dollars or are closely correlated to the dollar.

Foreign currency depreciation will make it more expensive for our non-U.S. subsidiaries to purchase certain of our raw material commodities that are priced globally in U.S. dollars, while the related revenue will decrease when translated to U.S. dollars. Significant movements in foreign exchange rates can have a material impact on our results of operations and financial condition. We periodically engage in hedging of our foreign currency exposure, but cannot assure you that we can successfully hedge all of our foreign currency exposure or do so at a reasonable cost.

Our international operations may be adversely affected by actions taken by foreign governments or other forces or events over which we may have no control.

We currently have significant manufacturing and distribution facilities outside of the U.S., including in the United Kingdom, France, Germany, China, Mexico, Poland, Czech Republic, Spain, Italy and Bulgaria. We may face political instability and economic uncertainty, cultural and religious differences and difficult labor relations in our foreign operations. We also may face barriers in the form of long-standing relationships between potential customers and their existing suppliers, national policies favoring domestic manufacturers and protective regulations including exchange controls, restrictions on foreign investment or the repatriation of profits or invested capital, changes in export or import restrictions and changes in the tax system or rate of taxation in countries where we do business. We cannot assure you that we will be able to successfully develop and expand our international operations and sales or that we will be able to overcome the significant obstacles and risks of our international operations.

Our failure to introduce new products and product enhancements and broad market acceptance of new technologies introduced by our competitors could adversely affect our business.

Many new energy storage technologies have been introduced over the past several years. In addition, recent advances in fuel cell and flywheel technology have been introduced for use in selected applications that compete with the end uses for industrial batteries. For certain important and growing markets, such as aerospace & defense, lithium-based battery technologies have large and growing market share. Our ability to achieve significant and

sustained penetration of key developing markets, including aerospace & defense, will depend upon our success in developing or acquiring these and other technologies, either independently, through joint ventures or through acquisitions. If we fail to develop or acquire, and manufacture and sell, products that satisfy our customers' demands, or we fail to respond effectively to new product announcements by our competitors by quickly introducing competitive products, then market acceptance of our products could be reduced and our business could be adversely affected. We cannot assure you that our lead-acid products will remain competitive with products based on new technologies.

We may not be able to adequately protect our proprietary intellectual property and technology.

We rely on a combination of copyright, trademark, patent and trade secret laws, non-disclosure agreements and other confidentiality procedures and contractual provisions to establish, protect and maintain our proprietary intellectual property and technology and other confidential information. Certain of these technologies, especially in thin-plate pure-lead—TPPL—technology, are important to our business and are not protected by patents. Despite our efforts to protect our proprietary intellectual property and technology and other confidential information, unauthorized parties may attempt to copy or otherwise obtain and use our intellectual property and proprietary technologies.

Relocation of our customers' operations could adversely affect our business.

The trend by a number of our North American and Western European customers to move manufacturing operations and expand their businesses into Asia and other low labor-cost markets may have an adverse impact on our business. As our customers in traditional manufacturing-based industries seek to move their manufacturing operations to lower-cost territories, there is a risk that these customers will source their energy storage products from competitors located in those territories and will cease or reduce the purchase of products from our manufacturing plants. We cannot assure you that we will be able to compete effectively with manufacturing operations of energy storage products in those territories, whether by establishing or expanding our manufacturing operations in those lower-cost territories or acquiring existing manufacturers.

We may fail to implement our cost reduction initiatives successfully and improve our profitability.

We must continue to implement cost reduction initiatives to achieve additional cost savings in future periods. We cannot assure you that we will be able to achieve all of the cost savings that we expect to realize from current or future initiatives. In particular, we may be unable to implement one or more of our initiatives successfully or we may experience unexpected cost increases that offset the savings that we achieve. Given the continued competitive pricing pressures experienced in our industry, our failure to realize cost savings would adversely affect our results of operations.

Quality problems with our products could harm our reputation and erode our competitive position.

The success of our business will depend upon the quality of our products and our relationships with customers. In the event that our products fail to meet our customers' standards, our reputation could be harmed, which would adversely affect our marketing and sales efforts. We cannot assure you that our customers will not experience quality problems with our products.

We offer our products under a variety of brand names, the protection of which is important to our reputation for quality in the consumer marketplace.

We rely upon a combination of trademark, licensing and contractual covenants to establish and protect the brand names of our products. We have registered many of our trademarks in the U.S. Patent and Trademark Office and in other countries. In many market segments, our reputation is closely related to our brand names. Monitoring unauthorized use of our brand names is difficult, and we cannot be certain that the steps we have

taken will prevent their unauthorized use, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the U.S. We cannot assure you that our brand names will not be misappropriated or utilized without our consent or that such actions will not have a material adverse effect on our reputation and on our results of operations.

We may fail to implement our plans to make acquisitions or successfully integrate them into our operations.

As part of our business strategy, we have grown, and plan to continue growing, by acquiring other product lines, technologies or facilities that complement or expand our existing business. There is significant competition for acquisition targets in the industrial battery industry. We may not be able to identify suitable acquisition candidates or negotiate attractive terms. In addition, we may have difficulty obtaining the financing necessary to complete transactions we pursue. In that regard, our credit facilities restrict the amount of additional indebtedness that we may incur to finance acquisitions and place other restrictions on our ability to make acquisitions. Exceeding any of these restrictions would require the consent of our lenders. We may be unable to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and we may not be able to realize related revenue synergies and cost savings within expected time frames. Our failure to execute our acquisition strategy could have a material adverse effect on our business. We cannot assure you that our acquisition strategy will be successful or that we will be able to successfully integrate acquisitions we do make.

Any acquisitions that we complete may dilute your ownership interest in EnerSys, may have adverse effects on our financial condition and results of operations and may cause unanticipated liabilities.

Future acquisitions may involve the issuance of our equity securities as payment, in part or in full, for the businesses or assets acquired. Any future issuances of equity securities would dilute your ownership interests. In addition, future acquisitions might not increase, and may even decrease our earnings or earnings per share and the benefits derived by us from an acquisition might not outweigh or might not exceed the dilutive effect of the acquisition. We also may incur additional debt or suffer adverse tax and accounting consequences in connection with any future acquisitions.

The failure of critical computer systems could seriously affect our sales and operations.

We operate a number of critical computer systems throughout our business that can fail for a variety of reasons. If such a failure were to occur, then we may not be able to sufficiently recover from the failure in time to avoid the loss of data or any adverse impact on certain of our operations that are dependent on such systems. This could result in lost sales and the inefficient operation of our facilities for the duration of such a failure.

Our ability to maintain an adequate credit facility.

Our ability to continue our ongoing business operations and fund future growth depends on our ability to maintain an adequate credit facility and to comply with the financial and other covenants in such credit facility or to secure alternative sources of financing. However, such credit facility or alternate financing may not be available or if available may not be on terms favorable to us.

Our significant indebtedness could adversely affect our financial condition.

As of March 31, 2008, we had \$426.8 million of total consolidated debt. This level of debt could:

- increase our vulnerability to adverse general economic and industry conditions, including interest rate fluctuations, because a significant portion of our borrowings bear, and will continue to bear, interest at floating rates;
- require us to dedicate a substantial portion of our cash flow from operations to debt service payments, which would reduce the availability of our cash to fund working capital, capital expenditures or other general corporate purposes, including acquisitions;

- limit our flexibility in planning for, or reacting to, changes in our business and industry;
- restrict our ability to introduce new products or new technologies or exploit business opportunities;
- place us at a disadvantage compared with competitors that have proportionately less debt;
- limit our ability to borrow additional funds in the future, if we need them, due to financial and restrictive covenants in our debt agreements; and
- have a material adverse effect on us if we fail to comply with the financial and restrictive covenants in our debt agreements.

This list of factors that may affect future performance is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

Not applicable.

ITEM 2. PROPERTIES

Set forth below is certain information, as of June 1, 2008, with respect to our principal properties. The primary function of the listed facilities is manufacturing of industrial batteries, unless otherwise noted.

Location	Function/Products Produced	Size (sq. feet utilized)	Owned/Leased
Americas:			
Reading, PA	Worldwide Headquarters	109,000	Owned
Warrensburg, MO	Industrial Batteries	376,000	Owned
Hays, KS	Industrial Batteries	351,000	Owned
Sumter, SC	Distribution Center	300,000	Owned
Richmond, KY	Industrial Batteries	277,000	Owned/Leased
Monterrey, Mexico	Industrial Batteries	181,000	Owned
Tijuana, Mexico	Industrial Batteries	156,000	Owned
Ooltewah, TN	Industrial Batteries	100,750	Owned
Richmond, KY	Distribution Center	95,500	Owned
Cleveland, OH	Motive Power Chargers	66,000	Owned
Saddle Brook, NJ	Distribution Center	58,500	Leased
Sumter, SC	Metal Fabrication	52,000	Owned
Horsham, PA	Industrial Batteries	51,400	Leased
Chino, CA	Distribution Center	47,400	Leased
Dallas, TX	Distribution Center	40,000	Leased
Santa Fe Springs, CA	Distribution Center	35,000	Leased
Brampton, Canada	Distribution Center	30,400	Leased
Burr Ridge, IL	Distribution Center	25,500	Leased
Norcross, GA	Distribution Center	23,600	Leased
Kansas City, MO	Distribution Center	19,700	Leased
Union City, CA	Distribution Center	17,400	Leased
Warrington, PA	Distribution Center	15,000	Leased
Warwick, RI	Design Center	4,000	Leased
Europe:			
Zurich, Switzerland	European Headquarters	2,500	Leased
Arras, France	Industrial Batteries	486,000	Owned
Targovishte, Bulgaria	Industrial Batteries	483,000	Owned
Newport, Wales	Industrial Batteries	233,000	Owned
Bielsko-Biala, Poland	Industrial Batteries	220,000	Leased
Montecchio, Italy	Industrial Batteries	207,000	Leased
Hagen, Germany	Industrial Batteries	185,000	Owned
Herstal, Belgium	Distribution Center	58,700	Leased
Zwickau, Germany	Industrial Batteries	57,000	Leased
Zamudio, Spain	Industrial Battery Assembly and Distribution	55,000	Owned
Brussels, Belgium	Distribution Center	45,000	Leased
Manchester, England	Distribution Center and Administrative Offices	42,600	Leased
Brebieres, France	Industrial Battery Chargers	41,000	Leased
Yverdon-les-Bains, Switzerland	Distribution Center	40,000	Leased
Hostimice, Czech Republic	Metal Fabrication	29,000	Owned/Leased
Asia:			
Shenzhen, China	Industrial Batteries/Asia Headquarters	176,000	Owned/Leased
Jiangsu, China	Industrial Batteries	160,000	Owned
Shantou, China	Industrial Batteries	59,000	Owned
Sydney, Australia	Industrial Battery Assembly and Distribution	13,000	Leased

ITEM 3. LEGAL PROCEEDINGS

In fiscal 2007, we settled two litigation matters. As a result of these settlements, we recorded litigation settlement income, net of related legal fees and expenses, of \$3.8 million.

From time to time, we are involved in litigation incidental to the conduct of our business. We do not expect that any of this litigation, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flow.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the vote of stockholders through the solicitation of proxies or otherwise during the fiscal quarter ended March 31, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Company's common stock has been listed on the New York Stock Exchange under the symbol "ENS" since it began trading on July 30, 2004. Prior to that time, there had been no public market for our common stock. The following table sets forth, on a per share basis for the periods presented, the range of high, low and closing prices of the Company's common stock.

<u>Quarter Ended</u>	<u>High Price</u>	<u>Low Price</u>	<u>Closing Price</u>
July 1, 2007	\$19.15	\$16.29	\$18.30
September 30, 2007	\$19.46	\$17.50	\$17.77
December 30, 2007	\$24.81	\$17.55	\$24.45
March 31, 2008	\$27.72	\$22.13	\$23.92
July 2, 2006	\$21.46	\$12.06	\$20.90
October 1, 2006	\$20.77	\$16.04	\$16.04
December 31, 2006	\$18.57	\$15.20	\$16.00
March 31, 2007	\$17.50	\$15.97	\$17.18

Holders of Record

As of June 1, 2008, there were approximately 281 record holders of common stock of the Company. Because many of such shares are held by brokers and other institutions on behalf of stockholders, the Company is unable to estimate the total number of stockholders represented by these record holders.

Dividends

We never have paid or declared any cash dividends on our common stock, and we have certain restrictions from doing so by our senior secured credit agreement. We currently intend to retain any earnings for future growth and, therefore, do not expect to pay any cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

During the three fiscal years ended March 31, 2008, we did not issue any unregistered securities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the number of common shares we purchased during the fourth fiscal quarter of 2008 from participants in our equity incentive plans. As provided by such plans, vested options outstanding may be exercised through surrender to the Company of option shares or vested options outstanding under the Plan to satisfy the applicable aggregate exercise price (and any withholding tax) required to be paid upon such exercise.

Purchases of Equity Securities

<u>Period</u>	(a) <u>Total number of shares (or units) purchased</u>	(b) <u>Average price paid per share (or unit)</u>	(c) <u>Total number of shares (or units) purchased as part of publicly announced plans or programs</u>	(d) <u>Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs</u>
December 31, 2007-January 27, 2008	28,585	\$25.43	—	—
January 28, 2008-February 24, 2008	—	—	—	—
February 25, 2008-March 31, 2008	—	—	—	—
Total	<u>28,585</u>	<u>\$25.43</u>	<u>—</u>	<u>—</u>

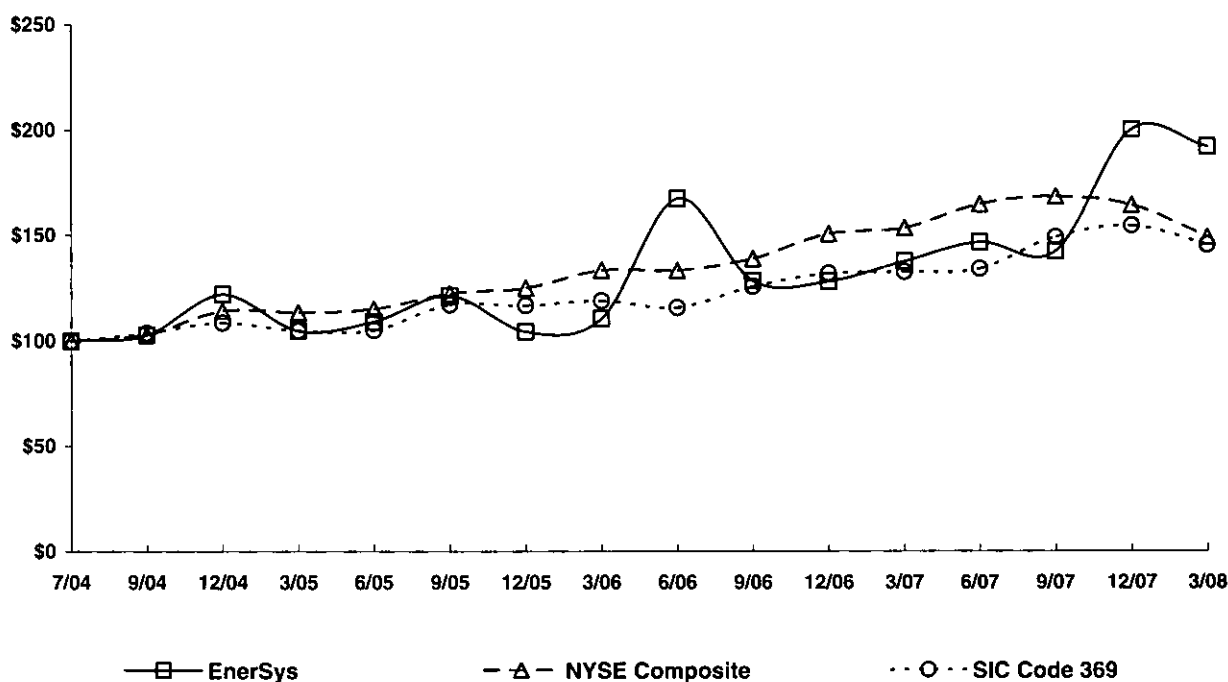
STOCK PERFORMANCE GRAPH

The following graph compares the changes in cumulative total returns on EnerSys' common stock with the changes in cumulative total returns of the New York Stock Exchange Composite Index, a broad equity market index, and the total return on a selected peer group index. The peer group selected is based on the standard industrial classification codes ("SIC Codes") established by the U.S. government. The index chosen was "Miscellaneous Electrical Equipment and Suppliers" and comprises all publically traded companies having the same three-digit SIC Code (369) as EnerSys. The constituent companies are: Active Power Inc, Advanced Battery Technologies Inc., Axion Power International, Inc., C & D Technologies Inc., China BAK Battery Inc., Cooper Industries Limited, Cymer Inc., Electro Energy Inc., EnerI Inc., Energizer Holdings Inc., Energy Conversion Devices Inc., Excel Technology Inc., Exide Technologies, Greatbatch Inc., Hoko Scientific Inc., Hybrid Technology Inc., Hydrogen Corp., Komag Inc., Lifestyle Innovations Inc., Lithium Technology Corp., Manhattan Scientifics Inc., Millenium Cell Inc., Motorcar Parts of America, Oak Ridge Micro Energy Inc., Power Technology Inc., Rofin Sinar Technologies, Satcon Technology Corp., Save the World Aircraft, Inc., Spectrum Brands Inc., Standard Motor Products, Inc., TNR Technical Inc., Trans Max Technologies Inc., Turbine Truck Engines Inc., Ultralife Batteries Inc., Valence Technology Inc., Wonder Auto Technology Inc. and Zareba Systems Inc. The peer group data points are weighted by market capitalization of the constituent companies.

The graph was prepared assuming that \$100 was invested in EnerSys' common stock, the New York Stock Exchange Composite Index and the peer group on July 30, 2004.

Comparison Of Thirty Two Month Cumulative Total Return* For Year Ended March 31, 2008

Among EnerSys, The NYSE Composite Index And SIC Code 369



* \$100 invested on 7/30/04 in stock or index-including reinvestment of dividends.
Fiscal year ending March 31.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth certain selected consolidated financial and operating data. The selected consolidated financial data presented below for the years ended March 31, 2008, 2007 and 2006, and as of March 31, 2008 and 2007, are derived from our audited consolidated financial statements included elsewhere in this Form 10-K. The selected consolidated financial data presented below for the years ended March 31, 2005 and 2004, and as of March 31, 2006, 2005 and 2004, are derived from our audited consolidated financial statements not included in this Form 10-K. This information should be read in conjunction with the consolidated financial statements and the related notes thereto, and Management's Discussion and Analysis of Results of Operations and Financial Condition, each included elsewhere, herein.

	Fiscal Year Ended March 31,				
	2008	2007	2006	2005	2004
	(In thousands, except share and per share data)				
Consolidated Statement of Operations:					
Net sales	\$ 2,026,640	\$ 1,504,474	\$ 1,283,265	\$ 1,083,862	\$ 969,079
Cost of goods sold	1,644,753	1,193,266	1,006,467	828,447	722,825
Gross profit	381,887	311,208	276,798	255,415	246,254
Operating expenses	249,350	221,102	199,900	179,015	171,294
Litigation settlement income	—	(3,753)	—	—	—
Charges relating to restructuring, bonuses and abandoned acquisitions	13,191	—	8,553	—	21,147
Operating earnings	119,346	93,859	68,345	76,400	53,813
Interest expense	28,917	27,733	24,900	23,275	20,343
Charges relating to a settlement agreement, write-off of deferred financing costs and a prepayment penalty	—	—	—	6,022	30,974
Other (income), expense net	4,234	3,024	(1,358)	(2,639)	(5,297)
Earnings before income taxes	86,195	63,102	44,803	49,742	7,793
Income tax expense	26,499	17,892	14,077	17,359	2,957
Net earnings	\$ 59,696	\$ 45,210	\$ 30,726	\$ 32,383	\$ 4,836
Series A convertible preferred stock dividends	—	—	—	8,155	24,689
Net earnings (loss) available to common stockholders	\$ 59,696	\$ 45,210	\$ 30,726	\$ 24,228	\$ (19,853)
Net earnings (loss) per share					
Basic	\$ 1.25	\$ 0.97	\$ 0.66	\$ 0.67	\$ (1.80)
Diluted	1.22	0.95	0.66	0.65	(1.80)
Weighted average shares outstanding					
Basic	47,645,225	46,539,638	46,226,582	36,416,358	11,014,421
Diluted	48,644,450	47,546,240	46,788,363	37,046,697	11,014,421

	Fiscal Year Ended March 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
Consolidated cash flow data:					
Net cash provided by operating activities	\$ 4,018	\$ 72,424	\$ 42,872	\$ 29,353	\$ 39,192
Net cash used in investing activities	(62,150)	(49,052)	(76,876)	(28,991)	(26,981)
Net cash provided by (used in) financing activities	39,558	(1,323)	27,905	3,213	(39,989)
Other operating data:					
Capital expenditures	\$ 45,037	\$ 42,355	\$ 39,665	\$ 31,828	\$ 28,580

	As of March 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 20,620	\$ 37,785	\$ 15,217	\$ 21,341	\$ 17,207
Working capital	389,480	276,252	211,434	182,177	135,320
Total assets	1,710,790	1,409,013	1,263,948	1,194,761	1,153,943
Total debt, including capital leases	426,754	402,311	402,490	375,457	511,303
Total stockholders' equity	\$ 691,543	\$ 542,099	\$ 445,188	\$ 437,650	\$ 239,302

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our results of operations and financial condition for the fiscal years ended March 31, 2008, 2007, and 2006, should be read in conjunction with our audited consolidated financial statements and the notes to those statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Our discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, opinions, expectations, anticipations and intentions and beliefs. Actual results and the timing of events could differ materially from those anticipated in those forward-looking statements as a result of a number of factors. See "Cautionary Note Regarding Forward-Looking Statements," "Business" and "Risk Factors," sections elsewhere in this Annual Report on Form 10-K. In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered "non-GAAP financial measures" under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Annual Report on Form 10-K.

EnerSys' management uses the non-GAAP measures, EBITDA and Adjusted EBITDA, in their computation of compliance with loan covenants. These measures, as used by EnerSys, adjust net earnings determined in accordance with GAAP for interest, taxes, depreciation and amortization, and certain charges or credits as permitted by our credit agreements, that were recorded during the periods presented.

EnerSys' management uses the non-GAAP measures, Primary Working Capital and Primary Working Capital Percentage (see definition in "Liquidity and Capital Resources" below) along with capital expenditures, in their evaluation of business segment cash flow and financial position performance.

These non-GAAP disclosures have limitations as analytical tools, should not be viewed as a substitute for cash flow or operating earnings determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. This supplemental presentation should not be construed as an inference that the Company's future results will be unaffected by similar adjustments to operating earnings determined in accordance with GAAP.

Overview

We are the world's largest manufacturer, marketer and distributor of industrial batteries. We also manufacture, market and distribute related products such as chargers, power equipment and battery accessories, and we provide related after-market and customer-support services for industrial batteries. We market and sell our products globally in more than 100 countries to over 10,000 customers through a network of distributors, independent representatives and an internal sales force.

We have two business segments: reserve power and motive power. Revenue and expense classifications by segment are as follows:

- **Reserve power** products are used for backup power for the continuous operation of critical applications in telecommunications systems, in uninterruptible power systems, or UPS, applications for computer and computer-controlled systems, in other specialty power applications, including security systems, for premium starting, lighting and ignition applications, in switchgear and electrical control systems used in electric utilities and energy pipelines, and in commercial and military aircraft, submarines and tactical military vehicles.
- **Motive power** products are used to provide power for manufacturing, warehousing and other material handling equipment, primarily electric industrial forklift trucks, mining equipment, and for diesel locomotive starting, rail car lighting and rail signaling equipment.

We evaluate business segment performance based primarily upon operating earnings, exclusive of highlighted items. All corporate and centrally incurred regional costs are allocated to the business segments based principally on net sales. We evaluate business segment cash flow and financial position performance based primarily upon capital expenditures and primary working capital levels. Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable and the resulting net amount is divided by the trailing three month net sales (annualized) for the respective business segment or reporting location, to derive a primary working capital percentage. Although we monitor the three elements of primary working capital (receivables, inventory and payables), our primary focus is on the total amount and percentage due to the significant impact it has on cash flow and, as a result, our level of debt.

We operate and manage our business in three primary geographic regions of the world—the Americas, Europe and Asia. Our business is highly decentralized with manufacturing locations throughout the world. Approximately 60% of our net sales for fiscal 2008, 2007 and 2006, were generated outside of North America. More than half of our manufacturing capacity is located outside of the U.S. Our management structure and financial reporting systems, and associated internal controls and procedures, are all consistent with our two business segments and three geographic regions in which we operate. We report on a March 31 fiscal year.

Our financial results are largely driven by the following factors:

- general cyclical patterns of the industries in which our customers operate;
- changes in our market share in the business segments and regions where we operate;
- changes in our selling prices and, in periods when our product costs increase, our ability to raise our selling prices to pass such cost increases through to our customers;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize their capacity;
- the extent to which we can control our fixed and variable costs, including those for our raw materials, manufacturing and distribution, operating activities;
- changes in our levels of debt and changes in the variable interest rates under our credit facilities; and
- the size and number of acquisitions and our ability to achieve their intended benefits.

Over the last four fiscal years, the costs of our raw materials (of which lead is our primary material) have risen significantly. Our estimated incremental lead cost, due to increased price, was approximately \$360 million since fiscal 2004 and, in fiscal 2008 over fiscal 2007, was approximately \$222 million.

We have been subjected to continual and significant pricing pressures over the past several years. We anticipate continuing competitive pricing pressure as Chinese and other foreign producers, able to employ labor at significantly lower costs than producers in the U.S. and Western Europe, expand their export capacity and increase their marketing presence in our major U.S. and European markets.

Our selling price increases approximated 2% of net sales for fiscal 2006 and increased net sales by approximately 5% in fiscal 2007 and 14% in fiscal 2008. We announced additional price increases from time to time during the course of fiscal 2008, however, these pricing actions will not be fully realized in our operating results until fiscal 2009.

Our ability to maintain and improve our operating margins has depended, and continues to depend, on our ability to control our costs and obtain appropriate pricing. Our business strategy in this environment of high commodity costs is to improve profitability by cost savings and pricing actions, as well as to tightly control operating cash flow and capital spending.

See *"Market and Economic Conditions"* below for a further discussion of commodity costs and our ability to offset some of the impact of these rising costs through selling price increases.

Our Corporate History

There have been several key stages in the development of our business, which explain to a significant degree our results of operations over the past three years.

We were formed in late 2000 by Morgan Stanley Capital Partners (currently Metalmark Capital) and the management of Yuasa, Inc. to acquire the industrial battery business of Yuasa Corporation (Japan) in North and South America. Our results of operations for the past six fiscal years have been significantly affected by our acquisition of the reserve power and motive power business of the Energy Storage Group, of Invensys plc. ("ESG") on March 22, 2002, which more than doubled our size; and to a lesser extent, by our acquisition of the motive power battery business of FIAMM, S.p.A. ("FIAMM") on June 1, 2005, and several smaller acquisitions.

Our successful integration of ESG provided global scale in both the reserve and motive power markets. The ESG acquisition also provided us with a further opportunity to reduce costs and improve operating efficiency that, among other initiatives, led to closing underutilized manufacturing plants, distribution facilities, sales offices and eliminating other redundant costs, including staff. FIAMM complements our existing European motive power business and also provided us with opportunities to reduce costs and improve operating efficiency.

Our other recent acquisitions include Gerate- und Akkumulatorwerk Zwickau GmbH ("GAZ"), a Germany-based producer of specialty nickel-based batteries utilized primarily in the energy, rail, telecommunications and uninterruptible power supply (UPS) industries worldwide, on October 11, 2005; what is now known as EnerSys Advanced Systems Inc. ("EAS"), a USA-based producer of lithium power sources, primarily for aerospace & defense applications on May 18, 2006; the manufacturing facilities of Chaozhou Xuntong Power Source Company Limited ("CFT"), located in China on August 22, 2006; the lead-acid battery business of Leclanché SA ("Leclanché") based in Switzerland on January 1, 2007; and on May 18, 2007, we acquired approximately a 97% interest in Energia AD ("Energia"), a producer of industrial batteries, located in Bulgaria.

Our results of operations include ESG for all fiscal years presented. Our results of operations for fiscal 2008, 2007 and 2006 include FIAMM, GAZ, EAS, CFT, Leclanché and Energia from their respective acquisition dates.

In August 2004, EnerSys completed an initial public offering (the "IPO") and our common stock commenced trading on the New York Stock Exchange on July 30, 2004, under the trading symbol "ENS."

Our historical consolidated financial statements for fiscal 2004 show our result of operations as a private company. In fiscal 2008, 2007, 2006 and 2005, the cost of complying with our public company reporting obligations (primarily costs associated with Sarbanes-Oxley Section 404 compliance) was approximately \$6 million, \$8 million, \$10 million and \$3 million, respectively. The significant increase in fiscal 2006 costs was due primarily to our initial year of compliance with the requirements of Section 404 of Sarbanes-Oxley.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Notes to Consolidated Financial Statements in this Form 10-K.

In preparing our financial statements, management is required to make estimates and assumptions that, among other things, affect the reported amounts of assets, liabilities, sales and expense. These estimates and assumptions are most significant where they involve levels of subjectivity and judgment necessary to account for highly uncertain matters or matters susceptible to change, and where they can have a material impact on our financial condition and operating performance. We discuss below the more significant estimates and related assumptions used in the preparation of our consolidated financial statements. If actual results were to differ materially from the estimates made, the reported results could be materially affected.

Revenue Recognition

We recognize revenue when the earnings process is complete. This occurs when we ship in accordance with terms of the underlying agreement, title transfers, collectibility is reasonably assured and pricing is fixed and determinable. Shipment terms to our battery product customers are primarily shipping point or destination and do not differ significantly between our regions of the world. Accordingly revenue is recognized when title is transferred to the customer. Amounts invoiced to customers for shipping and handling are classified as revenue. Taxes on revenue producing transactions are not included in net sales.

We recognize revenue from the service of reserve power and motive power products when the respective services are performed.

Management believes that the accounting estimates related to revenue recognition are critical accounting estimates because they require reasonable assurance of collection of revenue proceeds and completion of all performance obligations. Also revenues are recorded net of provisions for sales discounts and returns, which are established at the time of sale. These estimates are based on our past experience.

Asset Impairment Determinations

As a result of the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, goodwill is no longer amortized. We test for the impairment of our goodwill and trade names at least annually and whenever events or circumstances occur indicating that a possible impairment has been incurred. We utilize financial projections of our reporting segments, certain cash flow measures, as well as our market capitalization in the determination of the fair value of these assets.

With respect to our other long-lived assets other than goodwill and indefinite lived intangible assets, we are required to test for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. We apply Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in order to determine whether or not an asset was impaired. This standard requires an impairment analysis when indicators of impairment are present. If such indicators are present, the standard indicates that if the sum of the future expected cash flows from the asset, undiscounted and

without interest charges, is less than the carrying value, an asset impairment must be recognized in the financial statements. The amount of the impairment is the difference between the fair value of the asset and the carrying value of the asset.

In making future cash flow analyses of goodwill and other long-lived assets, we make assumptions relating to the following:

- The intended use of assets and the expected future cash flows resulting directly from such use;
- Industry specific economic conditions;
- Competitor activities and regulatory initiatives; and
- Client and customer preferences and patterns.

We believe that an accounting estimate relating to asset impairment is a critical accounting estimate because the assumptions underlying future cash flow estimates are subject to change from time to time and the recognition of an impairment could have a significant impact on our financial statements.

Litigation and Claims

From time to time the Company has been or may be a party to various legal actions and investigations including, among others, employment matters, compliance with government regulations, federal and state employment laws, including wage and hour laws, contractual disputes and other matters, including matters arising in the ordinary course of business. These claims may be brought by, among others, the government, clients, customers and employees. Management considers the measurement of litigation reserves as a critical accounting estimate because of the significant uncertainty in some cases relating to the outcome of potential claims or litigation and the difficulty of predicting the likelihood and range of potential liability involved, coupled with the material impact on our results of operations that could result from litigation or other claims. In determining legal reserves, management considers, among other issues:

- Interpretation of contractual rights and obligations;
- The status of government regulatory initiatives, interpretations and investigations;
- The status of settlement negotiations;
- Prior experience with similar types of claims;
- Whether there is available insurance; and
- Advice of outside counsel.

Environmental Loss Contingencies

Accruals for environmental loss contingencies (i.e., environmental reserves) are recorded when it is probable that a liability has been incurred and the amount can reasonably be estimated. Management views the measurement of environmental reserves as a critical accounting estimate because of the considerable uncertainty surrounding estimation, including the need to forecast well into the future. We are involved in legal proceedings under state, federal and local environmental laws in connection with our operations and companies that we have acquired. The estimation of environmental reserves is based on the evaluation of currently available information, prior experience in the remediation of contaminated sites and assumptions with respect to government regulations and enforcement activity, changes in remediation technology and practices, and financial obligations and credit worthiness of other responsible parties and insurers.

Warranty

We record a warranty reserve for possible claims against our product warranties, which generally run for a period of one to twenty-years for our reserve power batteries and for a period of one to seven-years for our motive power batteries. The assessment of the adequacy of the reserve includes a review of open claims and historical experience.

Management believes that the accounting estimate related to the warranty reserve is a critical accounting estimate because the underlying assumptions used for the reserve can change from time to time and warranty claims could potentially have a material impact on our results of operations.

Allowance for Doubtful Accounts

We encounter risks associated with sales and the collection of the associated accounts receivable. We record a provision for accounts receivable that are considered to be uncollectible. In order to calculate the appropriate provision, management analyzes the creditworthiness of specific customers and the aging of customer balances. Management also considers general and specific industry economic conditions, industry concentration and contractual rights and obligations.

Management believes that the accounting estimate related to the allowance for doubtful accounts is a critical accounting estimate because the underlying assumptions used for the allowance can change from time to time and uncollectible accounts could potentially have a material impact on our results of operations.

Retirement Plans

We use certain assumptions in the calculation of the actuarial valuation of our defined benefit plans. These assumptions include the weighted average discount rate, rates of increase in compensation levels and expected long-term rates of return of assets. If actual results are less favorable than those projected by us, additional expense may be required.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB No. 87, 88, 106, and 132(R)* ("SFAS 158"). SFAS 158 requires an entity to recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, measure a defined benefit postretirement plan's assets and obligation that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the change occurs. The requirement to recognize the funded status of a defined benefit postretirement plan became effective March 31, 2007, and we adopted the recognition requirements as of March 31, 2007.

In connection with the fiscal 2007 adoption of SFAS 158, the Company recorded an additional pension liability of \$2.8 million for the remaining underfunded status of our benefit plans at March 31, 2007, with an offsetting amount recorded in accumulated other comprehensive income, net of taxes.

Critical accounting estimates and assumptions related to the actuarial valuation of our defined benefit plans are evaluated periodically as conditions warrant and changes to such estimates are recorded as new information or changed conditions require revision.

Equity-based compensation

We recognize compensation cost relating to equity-based payment transactions in using a fair-value measurement method, in accordance with the revision of FASB Statement No. 123, *Share-Based Payment* ("SFAS 123(R)"), which we adopted on April 1, 2006. SFAS 123R requires all equity-based payments to employees, including grants of stock options, to be recognized as compensation expense based on fair value over the requisite service period of the awards. We determine the fair value of restricted stock and restricted stock units based on the number of shares granted and the quoted price of our common stock, and the fair value of stock options is determined using the Black-Scholes option-pricing model which uses both historical and current market data to estimate the fair value. This method incorporates various assumptions such as the risk-free interest rate, expected volatility, expected dividend yield and expected life of the options. When estimating the requisite

service period of the awards, we consider expected forfeitures and many related factors including types of awards, employee class, and historical experience. Actual results, and future changes in estimates of the requisite service period may differ substantially from our current estimates.

Income Taxes

Our effective tax rate is based on pretax income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. We account for income taxes in accordance with SFAS 109 No. 109, *Accounting for Income Taxes* ("SFAS 109"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between book and tax bases on recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance, if some portion or all of the deferred tax assets will not be recognized.

The recognition and measurement of a tax position is based on management's best judgment given the facts, circumstances and information available at the reporting date. In accordance with *FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), which we adopted on April 1, 2007, we evaluate tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we recognize the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, we do not recognize any portion of the benefit in the financial statements. If the more likely than not threshold is not met in the period for which a tax position is taken, we may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period. (See Note 12 of Notes to Consolidated Financial Statements.)

We evaluate, on a quarterly basis, the reliability of our deferred tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would require use of cash and result in an increase in the effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the year of resolution.

Derivative Financial Instruments

We have entered into interest rate swap agreements to manage risk on a portion of our long-term floating-rate debt. We have entered into lead forward purchase contracts to manage risk of the cost of lead. We have entered into foreign exchange forward contracts and purchased option contracts to manage risk on foreign currency exposures. The agreements are with major financial institutions, and we believe the risk of nonperformance by the counterparties is negligible. The counterparties to certain of these agreements are lenders under the Credit Agreement and liabilities related to these agreements are covered under the security provisions of the Credit Agreement. We do not hold or issue derivative financial instruments for trading or speculative purposes. *FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), as amended, establishes accounting and reporting standards for derivative instruments and hedging activities. We recognize all derivatives as either assets or liabilities in the accompanying balance sheet and measure those instruments at fair value. Changes in the fair value of those instruments are reported in accumulated other comprehensive income if they qualify for hedge accounting or in earnings if they do not qualify for hedge accounting. Derivatives qualify for hedge accounting if they are designated as hedge instruments and if the hedge

is highly effective in achieving offsetting changes in the fair value or cash flow of the asset or liability hedged. Effectiveness is measured on a regular basis using statistical analysis and by comparing the overall changes in the expected cash flows on the lead and foreign currency forward contracts with the changes in the expected all-in cash outflow required for the lead and foreign currency purchases. This analysis is performed quarterly on the initial purchases that cover the quantities hedged. Accordingly, gains and losses from changes in derivative fair value are deferred until the underlying transaction occurs. Interest expense on the debt is adjusted to include the payments made or received under such interest rate swap agreements. Inventory and cost of goods sold is adjusted to include the payments made or received under such lead and foreign currency forward contracts. Any deferred gains or losses associated with derivative instruments, which on infrequent occasions may be terminated prior to maturity are recognized in earnings in the period in which the underlying hedged transaction is terminated. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, such instrument would be closed and the resulting gain or loss would be recognized in earnings.

Market and Economic Conditions

Our operating results are directly affected by the general cyclical pattern of the industries in which our major customer groups operate. Both our reserve power and motive power segments are heavily dependent on the end markets they serve, and our results of operations will vary depending on the capital expenditure environment in these markets. In addition, general economic conditions in the U.S. and international markets in which we and our customers operate also affect demand for our products. Sales of our motive power products, for example, depend significantly on demand for new electric industrial forklift trucks, which in turn depends on end-user demand for additional motive capacity in their distribution and manufacturing facilities. The overall economic conditions in the markets we serve can be expected to have a material effect on our results of operations.

In fiscal 2008, 2007 and 2006, economic growth and market conditions for industrial batteries remained strong in all regions. In the past four years, however, we experienced significant cost pressure on our raw material costs, primarily lead (which is our primary raw material) as lead prices hit substantially higher levels. See "*Quarterly Information*."

We estimate that the year over year incremental increase in lead costs (excluding premiums), as it affects our operating results, has risen by \$222 million in fiscal 2008, \$71 million in fiscal 2007, \$23 million in fiscal 2006, and \$44 million in fiscal 2005.

The highest price for lead during each of the last four fiscal years were as follows: in fiscal 2008 lead reached a historical high of over \$1.81 per pound on the London Metal Exchange on October 15, 2007; in fiscal 2007 it was \$0.91 per pound on February 26, 2007; in fiscal 2006 it was \$0.66 per pound on February 2, 2006; and in fiscal 2005 it was \$0.48 per pound on December 31, 2004. During April and May 2008, the price of lead has fallen significantly and the highest price for lead on the London Metal Exchange was \$1.34 per pound on, April 7, 2008 and the lowest price for lead on the London Metal Exchange was \$0.87 per pound on May 29, 2008.

We have implemented a series of selling price increases to offset some of the impact of these rising commodity costs. We believe we recovered approximately 70% of the cumulative increase in commodity costs since the beginning of fiscal 2005. These incremental selling price increases approximate 14% of net sales for fiscal 2008; 5% of net sales for fiscal 2007; and 2% of net sales for both fiscal 2006 and 2005.

Cost savings programs are and have been a continuous element of our business strategy and are directed primarily at further reductions in plant manufacturing (labor and overhead), raw materials costs and our operating expenses (primarily selling, general and administrative). Numerous individual cost savings opportunities are identified and evaluated by management with a formal selection and approval process that results in an ongoing list of cost savings projects to be implemented. In certain cases, projects are either modified or abandoned during

their respective implementation phases. In order to realize cost savings benefits for a majority of these initiatives, costs are incurred either in the form of capital expenditures, funding the cash obligations of previously recorded restructuring expenses or current period expenses.

Components of Revenue and Expense

Net sales include the invoiced amount for all products sold and services provided; freight costs, when paid for by our customers; less all related allowances, rebates, discounts and sales, value-added or similar taxes.

Cost of goods sold includes the cost of material, labor and overhead; the cost of our service businesses; freight; warranty and other costs such as distribution centers; obsolete or slow moving inventory provisions; and certain types of insurance.

For fiscal 2008, 2007 and 2006, we estimate that materials costs comprised over half of cost of goods sold. The largest single raw material cost is lead, which comprised approximately 33%, 25% and 21% of cost of goods sold in fiscal 2008, 2007 and 2006, respectively.

We use significant amounts of lead, plastics, steel, copper and other materials in manufacturing our products. The costs of these raw materials, particularly lead, are volatile and beyond our control. Year over year incremental lead costs were approximately \$222 million in fiscal 2008, \$71 million in fiscal 2007, \$23 million in fiscal 2006, and \$44 million in fiscal 2005, as a result of cost increases experienced during those years. Lead is our single largest raw material item and the price of lead has remained volatile. Lead, plastics, steel and copper in the aggregate represent our principal raw materials costs. Volatile raw materials costs can significantly affect our operating results and make period-to-period comparisons difficult. The costs of commodity raw materials such as lead, steel and copper have increased significantly in recent periods. We attempt to control our raw materials costs through strategic purchasing decisions. Where possible, we pass along some or all of our increased raw materials costs to our customers.

The following table shows certain average commodity prices for fiscal 2008, 2007 and 2006, which have not been adjusted for the timing of the impact on our financial results:

	2008	2007	2006
Lead \$/lb. ⁽¹⁾	\$1.296	\$0.647	\$0.473
Steel \$/lb. ⁽²⁾	0.366	0.363	0.255
Copper \$/lb. ⁽¹⁾	3.430	3.202	1.901

(1) Source: London Metal Exchange ("LME")

(2) Source: Nucor Corporation

Labor and overhead are primarily attributable to our manufacturing facilities. Overhead includes plant operating costs such as utilities, repairs and maintenance, taxes, supplies and depreciation.

Operating expenses include all non-manufacturing selling, general and administrative, engineering and other expenses. These include salaries and wages, sales commissions, fringe benefits, professional fees, supplies, maintenance, general business taxes, rent, communications, travel and entertainment, depreciation, advertising and bad debt expenses.

Operating expenses in fiscal 2008 and 2007 were incurred in the following functional areas of our business (as a percent of the total) and are substantially similar in both of our business segments.

	2008	2007
Selling	62%	63%
General and administrative	32	30
Engineering	6	7
Total	<u>100%</u>	<u>100%</u>

Restructuring and other charges and litigation settlement income

In comparing fiscal 2008 financial results to fiscal 2007, and fiscal 2007 financial results to fiscal 2006, management believes it is appropriate to highlight the \$13.2 million of operating restructuring charges and the \$0.6 million of expenses for a shelf registrations and secondary offerings incurred in fiscal 2008; the \$3.8 million of litigation settlement income, the \$1.1 million of expenses for a shelf registration and secondary offering and an abandoned acquisition attempt, and a \$2.0 million non-recurring tax benefit that were incurred in fiscal 2007; and the \$8.6 million of operating restructuring and other charges incurred in fiscal 2006.

Other income (expense), net consists primarily of non-operating foreign currency transaction gains (losses) and expenses associated with shelf registrations and secondary offerings.

Results of Operations—Fiscal 2008 Compared to Fiscal 2007

The following table presents summary consolidated statement of income data for fiscal year ended March 31, 2008, compared to fiscal year ended March 31, 2007:

	Fiscal 2008		Fiscal 2007		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net sales	\$2,026.6	100.0%	\$1,504.5	100.0%	\$522.1	34.7%
Cost of goods sold	1,644.7	81.2	1,193.3	79.3	451.4	37.8
Gross profit	381.9	18.8	311.2	20.7	70.7	22.7
Operating expenses	249.4	12.3	221.1	14.7	28.3	12.8
Restructuring charges	13.2	0.7	—	—	13.2	NA
Litigation settlement income	—	—	(3.8)	(0.2)	(3.8)	NA
Operating earnings	119.3	5.9	93.9	6.2	25.4	27.2
Interest expense	28.9	1.4	27.7	1.8	1.2	4.3
Other (income) expense, net	4.2	0.2	3.1	0.2	1.1	35.5
Earnings before income taxes	86.2	4.3	63.1	4.2	23.1	36.6
Income tax expense	26.5	1.3	17.9	1.2	8.6	48.0
Net earnings	<u>\$ 59.7</u>	<u>2.9%</u>	<u>\$ 45.2</u>	<u>3.0%</u>	<u>\$ 14.5</u>	<u>32.1%</u>

Overview

Fiscal 2008 results include a net sales increase over fiscal 2007 of 34.7%, to \$2.03 billion, with an increase to gross profit of 22.7% to \$381.9 million. Our gross profit margin decreased 190 basis points to 18.8% due primarily to the unfavorable effect of higher commodity costs of approximately \$240 million, partially offset by increased sales volume, price increases to our customers and our cost savings initiatives. We estimate that the impact of higher lead costs alone, our primary raw material, unfavorably affected our cost of goods sold by approximately \$222 million in fiscal 2008. We estimate that our price increases realized in fiscal 2008 increased our net sales by approximately 14%.

Operating expenses in fiscal 2008 grew over fiscal 2007 by 12.8%, due mainly to currency fluctuations. Operating expenses as a percentage of sales were 12.3% in fiscal 2008, down from 14.7% in fiscal 2007 due to the favorable impact from higher net sales relative to the fixed elements of our operating expenses, cost savings actions and a decrease in public company costs (primarily costs associated with Sarbanes-Oxley Section 404 compliance) of approximately \$2 million.

We incurred \$13.2 million in restructuring expenses in fiscal 2008 compared to none in fiscal 2007. In fiscal 2007 we received litigation settlement income of \$3.8 million. Interest expense in fiscal 2008 increased over fiscal 2007 by approximately \$1.2 million or 4.3%, due primarily to increased debt to fund working capital growth. Other (income) expense, net was higher in fiscal 2008 by approximately \$1.1 million over fiscal 2007 due primarily to higher foreign currency transaction losses, primarily on short-term intercompany loans, partly offset by lower expenses in fiscal 2008 for shelf registrations and secondary offerings (\$0.6 million compared to \$0.8 million in fiscal 2007), and an abandoned acquisition attempt in fiscal 2007. The above fiscal 2008 over fiscal 2007 improvements in performance were partially offset by a non-recurring tax benefit of approximately \$2.0 million that we recorded in fiscal 2007. These factors resulted in the net earnings increase of \$14.5 million or 32.1% to \$59.7 million.

In comparing fiscal 2008 financial results to fiscal 2007, management believes it is appropriate to highlight the \$13.2 million of restructuring charges and the \$0.6 million of expenses for shelf registrations and secondary offerings incurred in fiscal 2008; and the \$1.1 million of expenses for a shelf registration and secondary offering and an abandoned acquisition attempt, the favorable \$3.8 million of litigation settlement income, and the \$2.0 million in non-recurring tax benefit incurred in fiscal 2007.

Net sales by geographic region were as follows:

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	% Total Sales	In Millions	% Total Sales	In Millions	%
Europe ⁽¹⁾	\$1,115.3	55.0%	\$ 784.6	52.2%	\$330.7	42.2%
Americas	777.9	38.4	630.8	41.9	147.1	23.3
Asia	133.4	6.6	89.1	5.9	44.3	49.7
Total	<u>\$2,026.6</u>	<u>100.0%</u>	<u>\$1,504.5</u>	<u>100.0%</u>	<u>\$522.1</u>	<u>34.7%</u>

(1) Includes Europe, Middle East and Africa

All geographic regions experienced solid sales growth in fiscal 2008. We believe our global business continued to gain market share.

The Europe region's revenue increased by approximately \$330.7 million or 42.2% in fiscal 2008, as compared to fiscal 2007. The euro increased on average by approximately 10.9 % in fiscal 2008, having an impact of approximately \$111 million on our Europe business' fiscal 2008 net sales growth. Further, the Europe region's revenue benefited from the Energia and other smaller acquisitions, which increased their net sales by approximately \$25 million in fiscal 2008.

The Americas region's revenue increased by approximately \$147.1 million or 23.3% in fiscal 2008 as compared to fiscal 2007, primarily due to higher prices and volume growth.

The Asia region's revenue increased by approximately \$44.3 million in fiscal 2008, primarily attributed to higher prices and continued general business expansion in that region.

After excluding the impact of the Energia and other smaller acquisitions and adjusting for the impact of the stronger currencies (primarily the euro) and price increases in fiscal 2008, consolidated net sales increased approximately 11% compared to the prior year.

Operating earnings by geographic region were as follows:

	Fiscal 2008		Fiscal 2007		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Europe ⁽¹⁾	\$ 61.3	5.5%	\$36.0	4.6%	\$ 25.3	70.3%
Americas	68.5	8.8	52.7	8.4	15.8	30.0
Asia	2.7	2.0	1.4	1.6	1.3	92.9
Subtotal	132.5	6.5	90.1	6.0	42.4	47.1
Restructuring charges-Europe	(13.2)	(0.7)	—	—	(13.2)	NA
Litigation settlement income-						
Americas	—	—	3.8	0.3	(3.8)	NA
Total	<u>\$119.3</u>	<u>5.9%</u>	<u>\$93.9</u>	<u>6.2%</u>	<u>\$ 25.4</u>	<u>27.2%</u>

(1) Includes Europe, Middle East and Africa

The Europe region's operating earnings increased \$25.3 million or 70.3% in fiscal 2008 compared to fiscal 2007 as increased sales volume, prices and cost savings programs more than offset higher commodity costs.

The Americas region's operating earnings increased 30.0% as net sales grew by approximately 23.3%. The Americas region's operating earnings were favorably affected by sales price increases, improved plant utilization and cost savings programs, which more than offset higher commodity costs.

The Asia region's operating earnings reflect the improved operating performance in this region. The region realized significant price increases in fiscal 2008; partially offset by the negative impact of higher commodity costs and continued challenging competitive conditions in this region.

The above operating earnings performance improvement in fiscal 2008 was reduced by the European restructuring program that is expected to continue into next fiscal year, and the fiscal 2007 favorable litigation settlement income.

A discussion of specific fiscal 2008 versus fiscal 2007 operating results follows, including an analysis and discussion of the results of our two business segments.

Net Sales

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	% Total Sales	In Millions	% Total Sales	In Millions	%
Reserve power	\$ 883.8	43.6%	\$ 642.6	42.7%	\$241.2	37.5%
Motive power	1,142.8	56.4	861.9	57.3	280.9	32.6
Total	<u>\$2,026.6</u>	<u>100.0%</u>	<u>\$1,504.5</u>	<u>100.0%</u>	<u>\$522.1</u>	<u>34.7%</u>

Net sales increased \$522.1 million or 34.7% in fiscal 2008 over fiscal 2007. This growth resulted primarily from four main factors: currency fluctuations, acquisitions, pricing and organic growth.

Stronger currencies, primarily the euro compared to the U.S. dollar, resulted in an increase of \$125 million or 8% in fiscal 2008 net sales. The euro exchange rate to the U.S. dollar averaged \$1.43/ € in fiscal 2008 compared to \$1.29/ € in fiscal 2007. Excluding the effect of foreign currency fluctuations, net sales in the Europe region increased 28%, the Americas region increased 23%, and the Asia region increased 38% in fiscal 2008 compared to fiscal 2007.

Acquisitions of Energia in May 2007, Leclanché in January 2007, contributed almost \$28 million or 2% of worldwide incremental net sales in fiscal 2008 as compared to fiscal 2007.

We have implemented a series of selling price increases to offset some of the increased costs associated with lead and other key materials used in the manufacturing of our products. As described previously, competitive conditions remain challenging in our industry, with only a partial recovery of higher commodity costs experienced in fiscal 2008 and 2007 from sales price increases. We realized selling price increases of approximately 14% in fiscal 2008 and 5% in fiscal 2007, which represents approximately 85% of the commodity cost increases experienced in fiscal 2008 and roughly 66% of the commodity cost increases in fiscal 2007. We remain highly focused on maximizing our pricing actions; however, there is a time lag in realizing the full impact from announced price increases in our operating results, caused primarily by the impact of our order backlog. Price increases resulted in an increase in net sales of approximately \$204 million or 14% in fiscal 2008 over fiscal 2007 in both segments. Strong efforts were made to pass through sales price increases in all regions. In general, more selling price realization occurred in our motive power business in comparison to our reserve power business during fiscal 2007, but was comparable in fiscal 2008.

Organic growth (increased net sales excluding the impact of currency, pricing and acquisitions) contributed approximately \$165 million or 11% to net sales in fiscal 2008 over fiscal 2007. We believe our organic growth resulted from a combination of our increased market share and overall market growth.

Fiscal 2008 net sales growth, excluding the effect of foreign currency translation, in reserve power and motive power was approximately 30% and 24%, respectively, compared to fiscal 2007.

Excluding the effect of foreign currency translation, the reserve power segment achieved solid growth in fiscal 2008 sales as compared to fiscal 2007 sales, due primarily to improving sales trends for both telecom and UPS battery markets and the strong sales of aerospace & defense batteries, coupled with the impact of approximately \$12 million of increased sales from recent acquisitions.

The strong growth experienced in our motive power segment in the prior year continued into fiscal 2008 and benefited from approximately \$16 million of increased sales from acquisitions.

See Note 2 of Notes to Consolidated Financial Statements in this Form 10-K for descriptions of the Energia, Leclanché, CFT, EAS and GAZ acquisitions.

Gross Profit

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Gross profit	\$381.9	18.8%	\$311.2	20.7%	\$70.7	22.7%

Gross profit increased \$70.7 million or 22.7% in fiscal 2008 compared to fiscal 2007. Gross profit, excluding the effect of foreign currency translation, increased \$55.1 million or 17.7% in fiscal 2008 compared to fiscal 2007. Gross profit margin declined 190 basis points in fiscal 2008 compared to fiscal 2007. The primary cause of the decline in gross profit margin is attributed to higher commodity and energy costs. Pricing recovery to offset higher commodity costs increased net sales by approximately 14% in fiscal 2008 and continues to be challenging. Lead represents our principal raw material and approximated 33% of total cost of goods sold for fiscal 2008 as compared to approximately 25% of total cost of goods sold for fiscal 2007. Lead costs continue to increase dramatically and increased approximately \$222 million compared to the prior year. We continue to focus on cost savings initiatives to help mitigate the rising cost of commodities. Additionally, we continue to focus on a wide variety of sales initiatives which benefit our margins by improving product mix to higher margin products. Lastly, as previously discussed, we have implemented multiple sales price increases throughout the year to offset commodity cost increases.

Operating Expenses

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Operating expenses	\$249.4	12.3%	\$221.1	14.7%	\$28.3	12.8%

Operating expenses increased \$28.3 million or 12.8% in fiscal 2008 over fiscal 2007 as net sales increased 34.7%. Excluding the effect of foreign currency translation, operating expenses increased 7.9% in fiscal 2008 over fiscal 2007, while net sales increased 26.4% in fiscal 2008 over fiscal 2007. These increases also reflect the additional operating expenses and sales of the acquired Energia, Leclanché, EAS and GAZ businesses. Operating expenses represented 12.3% of net sales in fiscal 2008 as compared to 14.7% in fiscal 2007. Selling expenses were 61.8% of operating expenses in fiscal 2008, compared to 62.8% in fiscal 2007. We continued to further reduce our costs in this area through cost savings initiatives.

Restructuring Charges—Operating

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Restructuring charges	\$13.2	0.7%	\$—	— %	\$13.2	NA

Included in our fiscal 2008 operating results are \$13.2 million of highlighted restructuring charges that resulted from the Energia acquisition, which included \$9.3 million that were incurred for staff reductions and professional fees, plus \$3.9 million of non-cash impairment charges for redundant machinery and equipment. There were no restructuring charges in fiscal 2007.

Litigation Settlement (Income)—Operating

	Fiscal 2008		Fiscal 2007		(Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Litigation settlement income	\$—	— %	\$(3.8)	(0.2)%	\$(3.8)	NA

Included in our fiscal 2007 operating results is litigation settlement income of \$3.8 million, net of fees and expenses, from the settlement of two separate legal matters associated with our Americas business. The amounts of the settlements have been recorded as increases in operating earnings in fiscal 2007, as the costs related to these matters were previously recorded as an element of operating earnings.

Operating Earnings

	Fiscal 2008		Fiscal 2007		Increase (Decrease)	
	In Millions	As % Net Sales ⁽¹⁾	In Millions	As % Net Sales ⁽¹⁾	In Millions	%
Reserve power	\$ 43.8	5.0%	\$31.3	4.9%	\$12.5	39.9%
Motive power	88.7	7.8	58.8	6.8	29.9	50.9
Subtotal	132.5	6.5	90.1	6.0	42.4	47.1
Restructuring charges-Reserve	(8.5)	(1.0)	—	—	(8.5)	NA
Restructuring charges-Motive	(4.7)	(0.4)	—	—	(4.7)	NA
Litigation settlement income-Reserve	—	—	3.0	0.5	(3.0)	NA
Litigation settlement income-Motive	—	—	0.8	0.1	(0.8)	NA
Total operating earnings	<u>\$119.3</u>	<u>5.9%</u>	<u>\$93.9</u>	<u>6.2%</u>	<u>\$25.4</u>	<u>27.2%</u>

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales.

Fiscal 2008 operating earnings of \$119.3 million were \$25.4 million higher than in fiscal 2007 and our operating margins decreased 30 basis points to 5.9%. Fiscal 2008 operating earnings included the \$13.2 million negative impact of restructuring charges; and fiscal 2007 operating earnings included the favorable impact of \$3.8 million of litigation settlement income. As discussed above, our operating earnings were favorably affected by sales volume, price increases and our continuing cost savings programs, partially offset by higher commodity costs.

Interest Expense

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Interest expense	\$28.9	1.4%	\$27.7	1.8%	\$1.2	4.3%

Fiscal 2008 interest expense of \$28.9 million (net of interest income of \$1.2 million) increased 4.3% over fiscal 2007. Our average debt outstanding in fiscal 2008 was approximately \$430 million, as compared to our average debt of \$417 million in fiscal 2007. Our average interest rate on borrowings incurred in fiscal 2008 was 6.5%, a decrease of 10 basis points from 6.6% in fiscal 2007. Included in fiscal 2008 interest expense are non-cash charges of \$1.5 million for deferred financing fees, an increase of \$0.1 million from fiscal 2007. The increase in interest expense is due primarily to higher average debt and lower interest income; partially offset by lower interest rates on our variable rate debt in fiscal 2008 attributable to actions taken by central banks to decrease interest rates.

Other (Income) Expense, Net

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Other (income) expense, net	\$4.2	0.2%	\$3.1	0.2%	\$1.1	35.5%

Fiscal 2008 other expense, net, which was \$4.2 million, consists primarily of \$2.7 million in foreign currency transaction losses and \$0.6 million in fees related to secondary stock offerings. This compares to fiscal 2007 other expense of \$3.1 million, which consisted primarily of \$1.6 million in foreign currency transaction losses and \$1.1 million in fees related to a secondary stock offering and an abandoned acquisition attempt. Both years' foreign currency transaction losses were primarily associated with short-term intercompany loan balances.

Earnings Before Income Taxes

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Earnings before income taxes	\$86.2	4.3%	\$63.1	4.2%	\$23.1	36.6%

As a result of the factors discussed above, fiscal 2008 earnings before income taxes were \$86.2 million, an increase of \$23.1 million or 36.6% compared to fiscal 2007. Included in fiscal 2008 earnings before income taxes were \$13.2 million of restructuring charges and \$0.6 million of secondary offering expenses. Included in fiscal 2007 earnings before income taxes were \$3.8 million of litigation settlement income, \$1.1 million of secondary offering expenses and a loss on an abandoned acquisition attempt.

Income Tax Expense

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Income tax expense	\$26.5	1.3%	\$17.9	1.2%	\$8.6	48.0%
Effective tax rate	30.7%		28.4%			

The effective income tax rate was 30.7% in fiscal 2008, compared to the fiscal 2007 effective tax rate, before the non-recurring credit, of 31.6%. The effective income tax rate was 28.4% in fiscal 2007, as the fiscal 2007 tax expense includes a non-recurring tax benefit of approximately \$2.0 million recorded in the third fiscal quarter of 2007, attributable to the favorable resolution of a prior year tax matter related to our European business, which reduced our book effective tax rate by 3.2 percentage points. Additionally, in fiscal 2007, changes in the mix of earnings among our various legal entities in multiple foreign jurisdictions resulted in an approximate one percentage point decrease on our effective tax rate.

Net Earnings

	Fiscal 2008		Fiscal 2007		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net earnings	\$59.7	2.9%	\$45.2	3.0%	\$14.5	32.1%

As a result of the factors discussed above, fiscal 2008 net earnings were \$59.7 million compared to fiscal 2007 earnings of \$45.2 million. The \$14.5 million increase is due primarily to a \$70.7 million increase gross profit, partially offset by \$13.2 million of restructuring charges, a \$28.3 million increase in operating expenses, a \$1.2 million increase in interest expense, a \$1.1 million increase in other expense and a \$8.6 million increase in income taxes in fiscal 2008. In addition, fiscal 2007 benefited from \$3.8 million (pre-tax) of litigation settlement income and the approximately \$2.0 million non-recurring tax benefit.

Net earnings per common share in fiscal 2008 were \$1.25 per basic share and \$1.22 per diluted share compared to \$0.97 per basic share and \$0.95 per diluted share in fiscal 2007.

Results of Operations—Fiscal 2007 Compared to Fiscal 2006

The following table presents summary consolidated statement of income data for fiscal year ended March 31, 2007, compared to fiscal year ended March 31, 2006:

	Fiscal 2007		Fiscal 2006		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net sales	\$1,504.5	100.0%	\$1,283.3	100.0%	\$221.2	17.2%
Cost of goods sold	1,193.3	79.3	1,006.5	78.4	186.8	18.6
Gross profit	311.2	20.7	276.8	21.6	34.4	12.4
Operating expenses	221.1	14.7	199.9	15.6	21.2	10.6
Restructuring and other charges	—	—	8.6	0.7	(8.6)	NA
Litigation settlement income	(3.8)	(0.2)	—	—	(3.8)	NA
Operating earnings	93.9	6.2	68.3	5.3	25.6	37.3
Interest expense	27.7	1.8	24.9	1.9	2.8	11.4
Other (income) expense, net	3.1	0.2	(1.4)	(0.1)	4.5	321.4
Earnings before income taxes	63.1	4.2	44.8	3.5	18.3	40.8
Income tax expense	17.9	1.2	14.1	1.1	3.8	27.3
Net earnings	\$ 45.2	3.0%	\$ 30.7	2.4%	\$ 14.5	47.2%

Overview

Fiscal 2007 results include a net sales increase over fiscal 2006 of 17.2%, to \$1.5 billion, with a gross profit increase of 12.4% to \$311.2 million. Our gross profit margin decreased 90 basis points to 20.7% due primarily to the unfavorable effect of higher commodity costs, partially offset by increased sales volume, price increases to our customers and our cost savings initiatives. We estimate that the impact of higher lead costs alone, our primary raw material, unfavorably affected our cost of goods sold by approximately \$71 million in fiscal 2007. We estimate that our price increases realized in fiscal 2007 increased our net sales by approximately 5%.

Operating expenses in fiscal 2007 grew at a slower rate over fiscal 2006 of 10.6%, due partly to a decrease in public company costs (primarily costs associated with Sarbanes-Oxley Section 404 compliance) of approximately \$2 million, cost savings actions and the favorable impact from higher net sales relative to the fixed elements of our operating expenses.

We did not incur any restructuring expenses in fiscal 2007 as compared to \$8.6 million in fiscal 2006, and in fiscal 2007 we received litigation settlement income of \$3.8 million. Interest expense in fiscal 2007 increased over fiscal 2006 by approximately \$2.8 million or 11.4%, due primarily to higher interest rates from our variable rate debt, as global interest rates have increased due to actions taken by central banks to raise borrowing costs. Other (income) expense, net in fiscal 2007 grew by approximately \$4.5 million over fiscal 2006 due primarily to \$1.1 million of expenses for a shelf registration and secondary offering and an abandoned acquisition attempt, and higher foreign currency transaction losses primarily on short-term intercompany loans. Additionally, we recorded a non-recurring tax benefit of approximately \$2.0 million in fiscal 2007. These factors resulted in the net earnings increase of \$14.5 million or 47.2% to \$45.2 million.

In comparing fiscal 2007 financial results to fiscal 2006, management believes it is appropriate to highlight the \$3.8 million of litigation settlement income, the \$1.1 million of expenses for a shelf registration and secondary offering and an abandoned acquisition attempt and the \$2.0 million in non-recurring tax benefit incurred in fiscal 2007, and the \$8.6 million of operating restructuring and other charges incurred in fiscal 2006.

Net sales by geographic region were as follows:

	Fiscal 2007		Fiscal 2006		Increase	
	In Millions	% Total Sales	In Millions	% Total Sales	In Millions	%
Europe	\$ 784.6	52.2%	\$ 675.4	52.6%	\$109.2	16.2%
Americas	630.8	41.9	535.9	41.8	94.9	17.7
Asia	89.1	5.9	72.0	5.6	17.1	23.8
Total	<u>\$1,504.5</u>	<u>100.0%</u>	<u>\$1,283.3</u>	<u>100.0%</u>	<u>\$221.2</u>	<u>17.2%</u>

All geographic regions experienced solid sales growth in fiscal 2007. The euro increased on average by approximately 6.6% in fiscal 2007, having an impact of approximately \$51 million on our Europe business' fiscal 2007 net sales growth. We believe our global business continued to gain market share with particularly strong growth in the motive power segment. The Asia region's revenue growth is primarily attributed to continued general business expansion in that region. Further, the Europe region revenue benefited from the FIAMM and other smaller acquisitions, which increased their net sales by approximately \$13 million in fiscal 2007. The Asia region revenues increased by approximately \$17 million in fiscal 2007. After excluding the impact of the FIAMM and other smaller acquisitions and adjusting for the impact of the stronger currencies (primarily the euro) and price increases in fiscal 2007, consolidated net sales increased approximately 7% compared to the prior year.

Operating earnings by geographic region were as follows:

	Fiscal 2007		Fiscal 2006		Increase (Decrease)	
	In Millions	As % Net Sales ⁽¹⁾	In Millions	As % Net Sales ⁽¹⁾	In Millions	%
Europe	\$36.0	4.6%	\$35.7	5.3%	\$ 0.3	0.8%
Americas	52.7	8.4	39.3	7.3	13.4	34.1
Asia	1.4	1.6	1.9	2.6	(0.5)	(26.3)
Subtotal	90.1	6.0	76.9	6.0	13.2	17.2
Restructuring and other charges-Europe ..	—	—	(8.6)	(0.7)	8.6	NA
Litigation settlement income-Americas ...	3.8	0.3	—	—	3.8	NA
Total	<u>\$93.9</u>	<u>6.2%</u>	<u>\$68.3</u>	<u>5.3%</u>	<u>\$25.6</u>	<u>37.3%</u>

(1) The percentages shown for the region's are computed as a percentage of the applicable region's net sales.

The Europe region's operating earnings were flat in fiscal 2007 compared to fiscal 2006 as increased sales were offset by higher commodity costs.

The Americas region's operating earnings increased 34.1% as net sales grew by approximately 17.7%. The Americas region's operating earnings were favorably affected by sales price increases, improved plant utilization and cost savings programs which offset higher commodity costs.

The Asia region's operating earnings were negatively affected by higher commodity costs in fiscal 2007 with a modest increase in sales prices realized as competitive conditions remain challenging in this region.

A discussion of specific fiscal 2007 versus fiscal 2006 operating results follows, including an analysis and discussion of the results of our two business segments.

Net Sales

	Fiscal 2007		Fiscal 2006		Increase	
	In Millions	% Total Sales	In Millions	% Total Sales	In Millions	%
Reserve power	\$ 642.6	42.7%	\$ 571.1	44.5%	\$ 71.5	12.5%
Motive power	861.9	57.3	712.2	55.5%	149.7	21.0
Total	<u>\$1,504.5</u>	<u>100.0%</u>	<u>\$1,283.3</u>	<u>100.0%</u>	<u>\$221.2</u>	<u>17.2%</u>

Consolidated net sales increased \$221.2 million or 17.2% in fiscal 2007 over fiscal 2006. This growth resulted primarily from four main factors: currency fluctuations, acquisitions, pricing and organic growth. All regions benefited from strong economic conditions and, we believe, an increase in market share.

Stronger currencies, primarily the euro compared to the U.S. dollar, resulted in an increase of approximately \$55 million or 4% in fiscal 2007 net sales. The euro exchange rate to the U.S. dollar averaged \$1.29 (\$/€) in fiscal 2007 compared to \$1.21 (\$/€) in fiscal 2006. Excluding the effect of foreign currency fluctuations, net sales in the Americas region increased 18%, the Asia region increased 20% and the Europe region increased 9% in fiscal 2007 compared to fiscal 2006.

Acquisitions of Leclanché in January 2007, EAS in May 2006, GAZ in October 2005 and FIAMM in June 2005, contributed approximately \$20 million of worldwide incremental net sales in fiscal 2007 as compared to fiscal 2006.

We implemented a series of selling price increases to offset some of the increased costs associated with lead and other key materials used in the manufacturing of our products. As described previously, competitive conditions remained challenging in our industry, with only a partial recovery of higher commodity costs experienced in fiscal 2007 and 2006 from sales price increases. We realized selling price increases of approximately 5% in fiscal 2007, and 2% in fiscal 2006, which represents approximately 66% of the commodity cost increases in fiscal 2007, and approximately 50% of the commodity cost increases experienced in fiscal 2006. We remained highly focused on maximizing our pricing actions; however, there is a time lag in realizing the full impact from our announced price increases (April 2007, January 2007 and November 2006) in our operating results, caused primarily by the impact of our order backlog. Price increases resulted in an increase in net sales by approximately \$60 million or 5% in fiscal 2007 over fiscal 2006. Strong efforts were made to pass through sales price increases in all regions. In general, more selling price realization has occurred in our motive power business in comparison to our reserve power business during fiscal 2007 and 2006. Organic growth (increased net sales excluding the impact of currency, pricing and sales resulting from acquisitions), which had the largest impact on sales growth, contributed approximately \$85 million or 6.6% to net sales in fiscal 2007 over fiscal 2006. We believe our organic growth resulted from a combination of our increased market share and overall market growth.

Fiscal 2007 net sales growth, excluding the effect of foreign currency translation, in reserve power and motive power was approximately 8.5% and 16.5%, respectively, compared to fiscal 2006.

Excluding the effect of foreign currency translation, the reserve power segment achieved solid growth in fiscal 2007 sales as compared to fiscal 2006 sales, due primarily to improving sales trends for both telecom and UPS battery markets and the strong sales of aerospace & defense batteries, coupled with the impact of over \$10 million of increased sales from recent acquisitions.

The strong growth experienced in our motive power segment in the prior year continued into fiscal 2007 and benefited from approximately \$9 million of increased sales from the FIAMM acquisition.

See Note 2 of Notes to Consolidated Financial Statements in this Form 10-K for descriptions of the FIAMM, GAZ, Leclanché and EAS acquisitions.

Gross Profit

	Fiscal 2007		Fiscal 2006		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Gross profit	\$311.2	20.7%	\$276.8	21.6%	\$34.4	12.4%

Gross profit increased \$34.4 million or 12.4% in fiscal 2007 compared to fiscal 2006. Gross profit, excluding the effect of foreign currency translation, increased \$25.9 million or 9.4% in fiscal 2007 compared to fiscal 2006. Gross profit margin declined 90 basis points in fiscal 2007 compared to fiscal 2006. The primary cause of the decline in gross profit margin is attributed to higher commodity and energy costs. Pricing recovery to offset higher commodity costs increased net sales by approximately 5% in fiscal 2007 and continues to be challenging. Lead represents our principal raw material and approximated 25% of total cost of goods sold for fiscal 2007. Lead costs continued to increase significantly and increased approximately \$71 million compared to the prior year. We continued to focus on cost savings initiatives to help mitigate the rising cost of commodities. Additionally, we continued to focus on a wide variety of sales initiatives which benefit our margins by improving product mix to higher margin products. Lastly, as previously discussed, we implemented multiple sales price increases throughout the year to offset commodity cost increases.

Operating Expenses

	Fiscal 2007		Fiscal 2006		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Operating expenses	\$221.1	14.7%	\$199.9	15.6%	\$21.2	10.6%

Operating expenses represented 14.7 % of net sales in fiscal 2007 as compared to 15.6 % in fiscal 2006. Operating expenses increased \$21.2 million or 10.6% in fiscal 2007 over fiscal 2006 as net sales increased 17.2%. Excluding the effect of foreign currency translation, operating expenses increased 6.1% in fiscal 2007 over fiscal 2006, while net sales increased 13.0% in fiscal 2007 over fiscal 2006. These increases also reflect the additional operating expenses and sales of the acquired FIAMM, GAZ, EAS and Leclanché businesses. Selling expenses were 62.8% of operating expenses in fiscal 2007, compared to 64.2% in fiscal 2006. We continued to further reduce our costs in this area through cost savings initiatives and the reduction in expenses associated with being a public company. Such public company costs were reduced to approximately \$8 million in fiscal 2007 from \$10 million in fiscal 2006.

Restructuring and Other Charges—Operating

	Fiscal 2007		Fiscal 2006		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Restructuring and other charges	\$—	— %	\$8.6	0.7%	\$(8.6)	NA

No restructuring charges were recorded in fiscal 2007. Included in our prior fiscal year's operating results are \$8.6 million of highlighted restructuring and other charges that were incurred to cover estimated costs, primarily in the Europe region, of staff reductions, exiting and moving product lines, and closing several ancillary locations, and a non-cash write-off of machinery and equipment based on impairment testing. These were primarily driven by the FIAMM and GAZ acquisitions.

Litigation Settlement (Income)—Operating

	Fiscal 2007		Fiscal 2006		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Litigation settlement income	\$(3.8)	(0.2)%	\$—	— %	\$(3.8)	NA

Included in our fiscal 2007 operating results is litigation settlement income of \$3.8 million, net of fees and expenses, from the settlement of two separate legal matters associated with our Americas business. The amounts of the settlements have been recorded as increases in operating earnings in fiscal 2007, as the costs related to these matters were previously recorded as an element of operating earnings.

Operating Earnings

	Fiscal 2007		Fiscal 2006		Increase (Decrease)	
	In Millions	As % Net Sales ⁽¹⁾	In Millions	As % Net Sales ⁽¹⁾	In Millions	%
Reserve power	\$31.3	4.9%	\$34.5	6.0%	\$(3.2)	(9.7)%
Motive power	58.8	6.8	42.4	6.0	16.4	39.3
Subtotal	90.1	6.0	76.9	6.0	13.2	17.2
Restructuring and other charges-Reserve	—	—	(4.5)	(0.7)	4.5	NA
Restructuring and other charges-Motive	—	—	(4.1)	(0.5)	4.1	NA
Litigation settlement income-Reserve	3.0	0.5	—	—	3.0	NA
Litigation settlement income-Motive	0.8	0.1	—	—	0.8	NA
Total operating earnings	<u>\$93.9</u>	<u>6.2%</u>	<u>\$68.3</u>	<u>5.3%</u>	<u>\$25.6</u>	<u>37.3%</u>

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales.

Fiscal 2007 operating earnings of \$93.9 million were \$25.6 million higher than in fiscal 2006 with our operating margins increasing 90 basis points to 6.2%. Fiscal 2007 operating earnings included the effect of \$3.8 million of highlighted litigation income and fiscal 2006 operating earnings included the effect of \$8.6 million of highlighted restructuring and other charges. As discussed above, our operating earnings were favorably affected by sales volume, price increases (particularly in the motive power segment) and our continuing cost savings programs, partially offset by higher commodity costs.

Interest Expense

	Fiscal 2007		Fiscal 2006		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Interest expense	\$27.7	1.8%	\$24.9	1.9%	\$2.8	11.4%

Fiscal 2007 interest expense of \$27.7 million (net of interest income of \$1.1 million) increased 11.4% over fiscal 2006. Our average debt outstanding in fiscal 2007 was approximately \$417 million, the same as our average debt in fiscal 2006. Our average interest rate on borrowings incurred in fiscal 2007 was 6.6%, an increase of 90 basis points from 5.7% in fiscal 2006. Included in fiscal 2007 interest expense are non-cash charges of \$1.4 million for deferred financing fees, unchanged from fiscal 2006. The increase in interest expense is due primarily to higher interest rates on our variable rate debt in fiscal 2007 attributable to actions taken by central banks to increase interest rates.

Other (Income) Expense, Net

	Fiscal 2007		Fiscal 2006		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Other (income) expense, net	\$3.1	0.2%	\$(1.4)	(0.1)%	\$4.5	321.4%

Fiscal 2007 other expense, net, which was \$3.1 million, consists primarily of \$1.6 million in foreign currency transaction losses and \$1.1 million in fees related to a secondary stock offering and an abandoned acquisition attempt. This compares to fiscal 2006 other income of \$1.4 million, which consisted primarily of \$1.3 million in foreign currency transaction gains. Both years' foreign currency transaction gains and losses were primarily associated with short-term intercompany loan balances.

Earnings Before Income Taxes

	Fiscal 2007		Fiscal 2006		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Earnings before income taxes	\$63.1	4.2%	\$44.8	3.5%	\$18.3	40.8%

As a result of the factors discussed above, fiscal 2007 earnings before income taxes were \$63.1 million, an increase of \$18.3 million or 40.8% compared to fiscal 2006. Included in fiscal 2007 earnings before income taxes were \$3.8 million of litigation settlement income, \$1.1 million in secondary offering expenses and a loss on an abandoned acquisition attempt. Included in fiscal 2006 earnings before income taxes were \$8.6 million in restructuring and other charges.

Income Tax Expense

	Fiscal 2007		Fiscal 2006		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Income tax expense	<u>\$17.9</u>	1.2%	<u>\$14.1</u>	1.1%	<u>\$3.8</u>	27.3%
Effective tax rate	<u>28.4%</u>		<u>31.4%</u>			

The effective income tax rate was 28.4 % in fiscal 2007, compared to 31.4% in fiscal 2006. The fiscal 2007 tax expense includes a non-recurring tax benefit of approximately \$2.0 million recorded in the third fiscal quarter of 2007, attributable to the favorable resolution of a prior year tax matter related to our European business, which reduced our book effective tax rate by 3.2 percentage points. Additionally, in fiscal 2007, changes in the mix of earnings among our various legal entities in multiple foreign jurisdictions had an approximate one percentage point decrease on our effective tax rate. A non-recurring \$0.5 million tax benefit was recorded in the third fiscal quarter of 2006.

Net Earnings

	Fiscal 2007		Fiscal 2006		Increase	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net earnings	<u>\$45.2</u>	3.0%	<u>\$30.7</u>	2.4%	<u>\$14.5</u>	47.2%

As a result of the factors discussed above, fiscal 2007 net earnings were \$45.2 million compared to fiscal 2006 earnings of \$30.7 million. The \$14.5 million increase is due primarily to a \$34.4 million increase in fiscal 2007 gross profit, \$3.8 million (pre-tax) of litigation settlement income in fiscal 2007 and the \$8.6 million of restructuring charges fiscal 2006, partially offset by a \$21.2 million increase in operating expenses, a \$2.8 million increase in interest expense, a \$4.5 million increase in other expense and a \$3.8 million increase in income taxes. Also contributing to the improvement was the non-recurring tax benefit of approximately \$2.0 million recorded in fiscal 2007.

Fiscal 2007 net earnings increased \$14.5 million or 47.2% compared to fiscal 2006. Net earnings per common share in fiscal 2007 were \$0.97 per basic share and \$0.95 per diluted share compared to \$0.66 per basic and diluted share in fiscal 2006.

Liquidity and Capital Resources

Cash Flow and Financing Activities

Cash and cash equivalents at March 31, 2008, 2007, and 2006, were \$20.6 million, \$37.8 million, and \$15.2 million, respectively.

Cash provided by operating activities for fiscal 2008, 2007, and 2006, was \$4.0 million, \$72.4 million and, \$42.9 million, respectively.

The \$68.4 million decrease in operating cash flow in fiscal 2008 was primarily from four areas: (a) a \$112.1 million increase in cash used for primary working capital and (b) \$2.1 million higher spending on our restructuring activities in fiscal 2008 as compared to fiscal 2007; partially offset by (c) a favorable increase of \$19.5 million in net earnings before non-cash depreciation and asset disposals; and (d) accrued and prepaid expenses provided \$14.5 million more cash flow in fiscal 2008.

Cash used in investing activities for fiscal 2008, 2007 and 2006 was \$62.2 million, \$49.1 million and \$76.9 million, respectively. Capital expenditures were \$45.0 million, \$42.4 million and \$39.7 million in fiscal 2008, 2007 and 2006, respectively. The majority of capital expenditures continue to be for additional capacity, new products and cost savings programs. Additionally, the Company invested \$17.4 million in fiscal 2008, primarily for the Energia acquisition, as compared to \$7.0 million in fiscal 2007, and invested \$38.1 million in fiscal 2006, primarily for the FIAMM and GAZ acquisitions.

As explained above in the discussion of our use of “non-GAAP financial measures,” we monitor the level and percentage of sales of our primary working capital accounts. Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable and the resulting net amount is divided by the trailing three month net sales (annualized) to derive a primary working capital percentage. Primary working capital was \$578.2 million (yielding a primary working capital percentage of 24.8%) at March 31, 2008 and \$385.7 million (yielding a primary working capital percentage of 23.3%) at March 31, 2007. The 1.5 percentage point increase during fiscal 2008 was due primarily to higher levels of inventory and receivables relative to sales, due in part, to significantly higher lead costs in inventory this year, combined with an increase in trade receivables relative to sales. Approximately 0.5 percentage points of the increase was the result of higher foreign currencies at the end of fiscal 2008 than the average of those currencies during the three months prior to year end. Primary working capital and primary working capital percentages at March 31, 2008 and 2007 are computed as follows:

<u>At March 31,</u>	<u>Trade Receivables</u>	<u>Inventory</u> (in millions)	<u>Accounts Payable</u>	<u>Total</u>	<u>Quarter Revenue Annualized</u>	<u>Primary Working Capital %</u>
2008	\$503.0	\$335.7	\$(260.5)	\$578.2	\$2,327.5	24.8%
2007	351.6	234.3	(200.2)	385.7	1,654.4	23.3%

Cash provided by (used in) financing activities for fiscal 2008, 2007 and 2006, was \$39.6 million, (\$1.3) million and \$27.9 million, respectively. The fiscal 2008 amount primarily reflects a net increase of \$23.5 million in short-term debt associated primarily with the Energia acquisition and foreign line of credit borrowings, and \$26.8 million related to the exercise of stock options; partially offset by \$10.8 million in regularly-scheduled long term debt and capital lease payments. The fiscal 2007 amount primarily reflects \$8.3 million in regularly-scheduled long term debt and capital lease payments, partially offset by a net increase of \$3.6 million in short-term debt and \$3.8 million related to the exercise of stock options. The fiscal 2006 amount relates primarily to the \$29.9 million (€25.0 million) financing of the FIAMM acquisition.

As a result of the above, cash and cash equivalents decreased \$17.2 million from \$37.8 million at March 31, 2007 to \$20.6 million at March 31, 2008.

Senior Credit Agreement and Other Financing Matters

In June 2006, we amended our senior secured credit agreement. The lenders approved the elimination of our senior secured debt leverage ratio (while maintaining our total debt leverage ratio).

In February 2007, in order to take advantage of the Company’s lower leverage and the favorable market conditions, we amended our senior secured credit agreement and reduced our borrowing rates on the senior secured term loan B by 0.25% to LIBOR+175 basis points. The existing \$355.9 million term loans were converted into new term B loans. The initial \$365.0 million senior secured Term Loan B has a 0.25% quarterly principal amortization and matures on March 17, 2011. The \$100.0 million senior secured revolving credit facility matures on March 17, 2009. Borrowings under this credit agreement bear interest at a floating rate based, at our option, upon a LIBOR rate plus an applicable percentage (currently 1.75%) or the greater of the federal funds rate plus 0.5% or the prime rate, plus an applicable percentage (currently 0.75%). The average effective borrowing rates on our total debt for fiscal 2008, 2007 and 2006 were 6.5%, 6.6% and 5.7%, respectively. See Note 11 of Notes to Consolidated Financial Statements in this Form 10-K for information on our interest rate swap agreements.

All obligations under the senior secured credit agreement are secured by, among other things, substantially all of our U.S. assets. Our credit agreements contain various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, would limit our ability to conduct certain specified business transactions, buy or sell assets out of the ordinary course of business, engage in sale and leaseback transactions, pay dividends and take certain other actions. There are no prepayment penalties on loans under the \$455.9 million senior secured credit facility. We currently are in compliance with all covenants and conditions under our credit agreements.

In addition to the above described credit facility, our foreign subsidiaries maintain local credit facilities to provide credit for working capital and other purposes.

In addition to cash flows from operating activities, we had available credit lines of approximately \$188.6 million at March 31, 2008 and \$165.6 million at March 31, 2007 to cover short-term liquidity requirements. On a long-term basis, our senior secured revolving credit facility is committed through March 2009, as long as we continue to comply with the covenants and conditions of the facility agreement. Included in our available credit lines at March 31, 2008, is \$86.5 million of our senior secured revolving credit facility.

We believe that our cash flow from operations, available cash and available borrowing capacity under our senior secured credit agreement will be sufficient to meet our liquidity needs, including normal levels of capital expenditures, for the foreseeable future; however, there can be no assurance that this will be the case. We have begun a capital expansion of our thin plate, pure lead manufacturing capacity for which we anticipate spending \$50 million during fiscal years 2008, 2009 and 2010, and the capital needs of our ongoing acquisition programs may require additional funding.

We continue to review the capital markets for potential financing. On October 30, 2007, the Company filed a \$500 million shelf registration statement, which included approximately \$91 million for primary offerings, on Form S-3 with the SEC. This registration statement allowed the Company to offer and sell from time to time, in one or more offerings, shares of common stock and debt securities of the Company. The registration statement also permits certain institutional investors and certain members of senior management to sell shares of common stock held by such person. See Note 15 of Notes to Consolidated Financial Statements for a discussion of sales by institutional investors during fiscal 2007 and 2008.

Recent Developments—Concurrent Public Offerings of Senior Convertible Notes and Common Stock and a Private Offering of a New Senior Secured Credit Facility

In May 2008, following the end of fiscal 2008, the Company completed the sale of \$172.5 million aggregate principal amount of senior unsecured 3.375% convertible notes due 2038, and used the net proceeds of \$168.2 million to repay a portion of its existing senior secured Term Loan B. The senior unsecured convertible notes are potentially convertible, at the option of the holders, into shares of EnerSys common stock as described in the May 19, 2008 Prospectus Supplement. The notes will mature on June 1, 2038, unless earlier converted, redeemed or repurchased.

Concurrently with the convertible note offering, certain of our stockholders sold 3.69 million shares of EnerSys' common stock pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008. We did not receive any proceeds from the common stock offering.

Also, immediately following the closing of the senior unsecured convertible note issue, we commenced refinancing the outstanding combined balance of the senior secured Term Loan B and our existing Revolver of approximately \$200 million, with a new \$350 million senior secured facility comprising Term A loans and a new Revolver. We expect these planned refinancing transactions will be completed in June 2008.

Amendment to Credit Agreements

On May 15, 2008, we amended the Euro 25,000 Credit Agreement and on May 16, 2008, we amended the \$480,000 Senior Secured Credit Agreement. The amendments permitted us to issue up to \$205,000 of unsecured indebtedness and to enter into a new \$350 million US Credit Agreement on terms substantially similar to the existing Credit Agreement. See "Recent Developments" above for a discussion of these events.

Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements during any of the periods covered by this report.

Contractual Obligations and Commercial Commitments

At March 31, 2008, we had certain cash obligations, which are due as follows:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 to 3 years</u>	<u>4 to 5 years</u>	<u>After 5 years</u>
		(in millions)			
Short-term debt	\$ 41.1	\$ 41.1	\$ —	\$ —	\$ —
Long-term debt	383.6	11.9	369.3	2.4	—
Interest on debt	51.5	18.2	33.3	—	—
Capital lease obligations, including interest	2.2	1.0	1.2	—	—
Operating leases	37.8	13.2	15.7	6.6	2.3
Pension and profit sharing	33.7	5.3	4.3	5.1	19.0
Interest rate swap agreements	11.6	3.5	6.5	1.6	—
Purchase commitments	2.9	2.9	—	—	—
Facility construction commitments	8.2	8.2	—	—	—
Restructuring	15.8	8.3	0.2	0.2	7.1
Total	<u>\$588.4</u>	<u>\$113.6</u>	<u>\$430.5</u>	<u>\$15.9</u>	<u>\$28.4</u>

Under our senior secured credit facility, we had outstanding standby letters of credit of \$1.2 million for each of the years ending March 31, 2008, 2007 and 2006.

Credit Facilities and Leverage

Our focus on working capital management and cash flow from operations is measured by our ability to reduce debt and reduce our leverage ratios. Shown below are the leverage ratios in connection with our senior secured credit agreement for fiscal 2008 and 2007. The total leverage ratio for fiscal 2008 is 2.5 times adjusted EBITDA (non-GAAP) as described below.

Our improved leverage in fiscal 2008 reflects improved net earnings and positive cash flows, partially offset by approximately \$17.4 million of borrowings from our available short term credit lines to fund the Energia acquisition in May 2007, and additional amounts to fund the increase in primary working capital caused by our higher sales volume and higher commodity prices. The total net debt, as defined under our senior secured credit agreement, for fiscal 2008 of approximately \$422.7 million is 2.5 times adjusted EBITDA (non-GAAP).

Our debt at March 31, 2007 reflected fiscal 2007 acquisitions of approximately \$7.0 million. The total net debt, as defined under our senior secured credit agreement, for fiscal 2007 of approximately \$384.3 million is 2.8 times adjusted EBITDA (non-GAAP).

The following table provides a reconciliation of net earnings to EBITDA (non-GAAP) and adjusted EBITDA (non-GAAP) as per our credit agreement:

	Fiscal 2008 (in millions, except ratios)	Fiscal 2007 (in millions, except ratios)
Net earnings as reported	\$ 59.7	\$ 45.2
Add back:		
Depreciation and amortization	47.7	45.9
Interest expense	28.9	27.7
Income tax expense	26.5	17.9
EBITDA (non GAAP) ⁽¹⁾	\$162.8	\$136.7
Adjustments per credit agreement definitions-Stock compensation expense	6.9 ⁽²⁾	2.2 ⁽³⁾
Adjusted EBITDA (non-GAAP) per credit agreements	\$169.7	\$138.9
Total net debt ⁽⁴⁾	\$422.7	\$384.3
Leverage ratios:		
Total net debt/adjusted EBITDA ratio ⁽⁵⁾	2.5X	2.8X
Maximum ratio permitted	3.3X	3.9X
Consolidated interest coverage ratio ⁽⁵⁾	6.0X	5.2X
Minimum ratio required	3.4X	3.3X

- (1) We have included EBITDA (non-GAAP) and adjusted EBITDA (non-GAAP) because our lenders use it as a key measure of our performance. EBITDA is defined as earnings before interest expense, income tax expense, depreciation and amortization. EBITDA is not a measure of financial performance under GAAP and should not be considered an alternative to net earnings or any other measure of performance under GAAP or to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. Our calculation of EBITDA may be different from the calculations used by other companies, and therefore comparability may be limited. Certain financial covenants in our senior secured credit facility are based on EBITDA, subject to adjustments, which is shown above. Because we have a significant amount of debt, and because continued availability of credit under our senior secured credit facility is critical to our ability to meet our business plans, we believe that an understanding of the key terms of our credit agreement is important to an investor's understanding of our financial condition and liquidity risks. Failure to comply with our financial covenants, unless waived by our lenders, would mean we could not borrow any further amounts under our revolving credit facility and would give our lenders the right to demand immediate repayment of all outstanding term and revolving credit loans. We would be unable to continue our operations at current levels if we lost the liquidity provided under our credit agreements. Depreciation and amortization in this table excludes the amortization of deferred financing costs, which is included in interest expense.
- (2) The \$6.9 million adjustments to EBITDA in fiscal 2008 related primarily to the adjustment for restructuring charges which included \$3.9 million for non-cash equipment write-offs and fixed asset impairment and \$3.0 million related primarily to stock compensation expense.
- (3) Represents adjustments to EBITDA in fiscal 2007 related primarily to stock compensation expense of \$2.2 million.
- (4) Debt includes capital lease obligations and letters of credit issued under the senior secured credit facility and is net of U.S. cash and cash equivalents.
- (5) These ratios are included to show compliance with the leverage ratios set forth in our credit facilities. We show both our current ratios and the maximum ratio permitted or minimum ratio required under our senior secured credit facility.

Stockholders' Equity

Stockholders' equity increased \$149.4 million during fiscal 2008, representing primarily net earnings of \$59.7 million, an increase for currency translation adjustments of \$75.3 million due primarily to the strengthening of the European currencies and a \$29.9 million in increases related to stock-based compensation and the exercise of stock options; partially offset by a \$15.8 million unrealized loss on derivative instruments.

Stockholders' equity increased \$96.9 million during fiscal 2007, representing net earnings of \$45.2 million, an increase for currency translation adjustments of \$41.5 million due primarily to the strengthening of the European currencies, a \$5.0 million unrealized gain on derivative instruments, a \$0.3 million change in minimum pension liability, and \$6.9 million in increases related to stock-based compensation and the exercise of stock options. These increases were partially offset by a \$2.0 million decrease due to the adoption of SFAS 158 for additional minimum pension liability.

ACCOUNTING PRONOUNCEMENTS PENDING ADOPTION

On March 19, 2008 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161") which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We believe SFAS 161 will have no impact on our financial position and results of operations.

On December 4, 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* ("SFAS 141(R)") which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. To achieve this goal, the new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact SFAS 141(R) may have on our financial position and results of operations.

In February, 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for us for the fiscal year ended March 31, 2009. We are in the process of reviewing SFAS 159 and have not determined the effects on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. The statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS 157 does not require any new fair value measurements. However, for some entities, the application of SFAS 157 will change current practice. We are required to adopt SFAS 157 in the first quarter of fiscal year 2009. We are in the process of reviewing SFAS 157 and have not determined the effects it may have on our consolidated financial statements.

In May 2008, the FASB issued Staff Position paper APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"). This FASB Staff Position ("FSP") will change the accounting treatment for convertible securities which the issuer

may settle fully or partially in cash. Under the final FSP, cash settled convertible securities will be separated into their debt and equity components. The value assigned to the debt component will be the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds for the convertible debt and the amount reflected as a debt liability will be recorded as additional paid-in capital. As a result, the debt will be recorded at a discount reflecting its below market coupon interest rate. The debt will subsequently be accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected on the income statement. This change in methodology will affect the calculations of net income and earnings per share for many issuers of cash settled convertible securities. This FSP is effective for our financial statements for fiscal year 2010 and interim periods within that fiscal year. We are currently evaluating the impact that FSP APB 14-1 may have on its financial position and results of operations.

Related Party Transactions

SFAS No. 57, *Related Party Disclosures*, (“SFAS 57”) requires us to identify and describe material transactions involving related persons or entities and to disclose information necessary to understand the effects of such transactions on our consolidated financial statements. In fiscal years 2008 and 2007, under the terms of a security holder agreement, the Company paid approximately \$0.6 million and \$0.8 million, respectively, in fees related to shelf registration statements and secondary offerings of 22 million shares of the Company’s common stock to underwriters by certain of the Company’s stockholders, including affiliates of Metalmark Capital LLC and certain other institutional stockholders.

Recent Development-Secondary Stock Offering

In May 2008, certain of our stockholders sold 3.69 million shares of EnerSys’ common stock pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008. The shares were sold by various of our stockholders, including affiliates of Metalmark Capital LLC and certain other institutional stockholders. We did not receive any proceeds from the common stock offering. See “*Recent Developments*” above for a discussion of these events.

Quarterly Information

Fiscal 2008 and 2007 quarterly operating results, and the associated quarterly trends within each of those two fiscal years, are affected by the same economic and business conditions as described in the fiscal 2008 versus fiscal 2007 analyses previously discussed.

	Fiscal 2008				Fiscal 2007			
	July 1, 2007 1st Qtr.	Sept. 30, 2007 2nd Qtr.	Dec. 30, 2007 3rd Qtr.	March 31, 2008 4th Qtr.	July 2, 2006 1st Qtr.	Oct 1, 2006 2nd Qtr.	Dec. 31, 2006 3rd Qtr.	March 31, 2007 4th Qtr.
(in millions, except per share amounts)								
Net sales	\$ 429.9	\$ 461.4	\$ 553.4	\$ 581.9	\$ 359.0	\$ 353.9	\$ 377.9	\$ 413.6
Cost of goods sold	343.3	369.4	455.9	476.1	281.9	276.2	301.1	334.1
Gross profit	86.6	92.0	97.5	105.8	77.1	77.7	76.8	79.5
Operating expenses, including amortization	57.5	60.1	65.0	66.8	54.3	54.0	55.7	57.1
Charges relating to restructuring	9.9	0.4	1.1	1.8	—	—	—	—
Litigation settlement income	—	—	—	—	(2.8)	(1.0)	—	—
Operating earnings	19.2	31.5	31.4	37.2	25.6	24.7	21.1	22.4
Interest expense	7.2	7.1	7.3	7.3	7.0	7.0	7.1	6.6
Other (income) expense, net	1.3	0.7	1.9	0.3	0.8	0.9	0.9	0.5
Earnings before income taxes	10.7	23.7	22.2	29.6	17.8	16.8	13.1	15.3
Income tax expense ⁽¹⁾	3.3	6.9	6.2	10.1	5.6	5.3	2.2	4.7
Net earnings available to common stockholders	\$ 7.4	\$ 16.8	\$ 16.0	\$ 19.5	\$ 12.2	\$ 11.5	\$ 10.9	\$ 10.6
Net earnings per common share								
Basic	\$ 0.16	\$ 0.36	\$ 0.34	\$ 0.40	\$ 0.26	\$ 0.25	\$ 0.24	\$ 0.23
Diluted	0.15	0.35	0.33	0.39	0.26	0.24	0.23	0.22
Weighted average shares outstanding								
Basic	46,885,318	47,098,758	47,848,603	48,748,223	46,338,013	46,471,958	46,597,387	46,751,194
Diluted	47,851,531	48,068,262	48,762,362	49,895,646	47,145,216	47,769,804	47,699,968	47,570,202

(1) Includes non-recurring tax benefits of \$2.0 million recorded in the third fiscal quarter of 2007.

The effective income tax rate was 30.7% in fiscal 2008, compared to the fiscal 2007 effective tax, rate before a non-recurring tax benefit, of 31.6 %. The effective income tax rate was 28.4% in fiscal 2007, as the fiscal 2007 tax expense includes a non-recurring tax benefit of approximately \$2.0 million recorded in the third fiscal quarter of 2007, attributable to the favorable resolution of a prior year tax matter related to our European business, which reduced our book effective tax rate by 3.2 percentage points. Additionally, in fiscal 2007, changes in the mix of earnings among our various legal entities in multiple foreign jurisdictions had an approximate one percentage point decrease on our effective tax rate.

Net Sales

Quarterly net sales by business segment were as follows:

	Fiscal 2008				Fiscal 2007			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
	(in millions)							
Net sales:								
Reserve power	\$184.7	\$198.6	\$247.9	\$252.6	\$158.4	\$158.8	\$157.0	\$168.4
Motive power	245.2	262.8	305.5	329.3	200.6	195.1	220.9	245.2
Total	<u>\$429.9</u>	<u>\$461.4</u>	<u>\$553.4</u>	<u>\$581.9</u>	<u>\$359.0</u>	<u>\$353.9</u>	<u>\$377.9</u>	<u>\$413.6</u>
Segment net sales as % total:								
Reserve power	43.0%	43.0%	44.8%	43.4%	44.1%	44.9%	41.5%	40.7%
Motive power	57.0	57.0	55.2	56.6	55.9	55.1	58.5	59.3
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Fiscal 2008 net sales on a quarter-to-quarter sequential basis, excluding the effect of foreign currency translation, showed moderate increases over the first two quarters, and increased 18% in the third quarter and 4% in the final quarter of fiscal 2008, with strong growth in both reserve power and motive power segments. Historically, a smaller sequential change in the first three quarters is typical of our business as our fourth quarter is generally our strongest. However, the continued generally favorable global economic conditions, and price increases that were caused by the historical spike in lead costs, had a significant favorable impact on our sales in the second half of fiscal 2008.

Our motive power segment is heavily influenced by growth in the distribution and manufacturing sectors. Our reserve power segment is dependant on growth in telecom, UPS and aerospace & defense. On a year-on-year basis, both segments posted solid double-digit percentage gains in fiscal 2008.

Fiscal 2007 net sales on a quarter-to-quarter sequential basis, excluding the effect of foreign currency translation, were relatively unchanged over the first three quarters and increased 10% in the final quarter of fiscal 2007. The generally favorable global economic conditions that we experienced in fiscal 2006 continued to favorably impact our sales in fiscal 2007. Historically, a smaller sequential change in the first three quarters is typical of our business as our fourth quarter is generally our strongest. Our motive power segment is heavily influenced by growth in the distribution and manufacturing sectors. In fiscal 2007, the motive power segment posted solid double-digit year-on-year percentage gains. Our reserve power segment, which is dependant on growth in telecom, UPS and aerospace & defense, posted solid year-on-year percentage gains in fiscal 2007.

The change in the mix of reserve power and motive power sales to total sales during the quarterly periods within fiscal 2008 primarily reflects the continued steady growth of the motive power segment throughout that year and the strong growth of the reserve power segment in the second half of fiscal 2008. The change in the mix within fiscal 2007 primarily reflects the strong growth of the motive power segment throughout that year.

Operating Earnings

Fiscal 2008 operating earnings on a quarter-to-quarter sequential basis, excluding the effect of foreign currency translation, showed (decreases) increases of approximately (17)%, 67%, 4% and 15% on a quarter-to-quarter sequential basis. Our operating earnings were significantly affected by restructuring costs of \$9.9 million, \$0.4 million, \$1.1 million and \$1.8 million in the first, second, third and fourth quarters, respectively, and higher commodity costs, partially offset by selling price increases and our continuing cost savings programs.

Fiscal 2007 operating earnings on a quarter-to-quarter sequential basis, excluding the effect of foreign currency translation, showed (decreases) increases of approximately (8)%, 5%, (10)% and 3% on a quarter-to-quarter sequential basis. The first and second fiscal quarters of 2007 included the favorable impact of litigation settlement income. Additionally, our operating earnings were significantly affected by selling price increases and our continuing cost savings programs, partially offset by higher commodity costs.

Other (Income) Expense, Net

Fiscal 2008 other (income) expense, net of \$4.2 million is primarily attributed to \$2.7 million in foreign currency net transaction losses associated with short-term intercompany loan balances and \$0.6 million for fees related to a shelf registration and three secondary offerings.

Fiscal 2007 other (income) expense, net of \$3.0 million is primarily attributed to \$1.6 million in foreign currency net transaction losses associated with short-term intercompany loan balances and \$1.1 million for fees related to a secondary offering and an abandoned acquisition attempt.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks

EnerSys' cash flows and earnings are subject to fluctuations resulting from changes in interest rates, foreign currency exchange rates and raw material costs. We manage our exposure to these market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. EnerSys' policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe that we can modify or adapt our hedging strategies as needed.

Interest Rate Risks

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements. On a selective basis, from time to time, we enter into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable rate debt. Management considers the interest rate swaps to be highly effective against changes in the fair value of the underlying debt based on the criteria in SFAS 133. Cash flows related to the interest rate swap agreements are included in interest expense over the terms of the agreements.

Currently, such interest rate swap agreements effectively convert \$203.0 million of the Company's variable-rate debt to a fixed-rate basis, utilizing the three-month London Interbank Offered Rate, or LIBOR, as a floating rate reference. During August, November and December 2007 (see below), we entered into an additional \$125.0 million of interest rate swap agreements that are effective as of February and May 2008 and will almost completely replace \$128 million of interest rate swaps that mature in February and May 2008. The following commentary provides details for the \$203.0 million interest rate swap agreements:

Fluctuations in LIBOR and fixed rates affect both the Company's net financial investment position and the amount of cash to be paid or received by it under these agreements.

In February 2001, we entered into interest rate swap agreements to fix the interest rate on \$60.0 million of our floating rate debt through February 22, 2006, at 5.59% per year. In April and May 2004, we amended these agreements to extend the maturity to February 22, 2008, and reduce the fixed rate to 5.16% per year beginning May 24, 2004.

In April 2004, we entered into interest rate swap agreements to fix interest rates on an additional \$60.0 million of floating rate debt through May 5, 2008. The fixed rates per year began May 5, 2004, and are 2.85% during the first year, 3.15% the second year, 3.95% the third year and 4.75% in the fourth year, which averages 3.68% for the four-year period.

In August 2004, we entered into an interest rate swap agreement to fix interest rates on an additional \$8.0 million of floating rate debt through May 5, 2008. The fixed rates per year began November 5, 2004, and are 2.85% during the first year, 3.15% the second year, 3.95% the third year and 4.20% in the fourth year, which averages 3.64% for the three and one-half year period.

In October 2005, we entered into interest rate swap agreements to fix interest rates on an additional \$75.0 million of floating rate debt through December 22, 2010. The fixed rates per year plus an applicable credit spread began December 22, 2005, and are 4.25% during the first year, 4.525% the second year, 4.80% the third year, 5.075% the fourth year, and 5.47% in the fifth year, which averages 4.82% for the five-year period.

In August 2007, we entered into interest rate swap agreements, that became effective in February 2008, to fix interest rates on \$40.0 million of floating rate debt through February 22, 2011, at 4.85% per year.

In November 2007, we entered into interest rate swap agreements that become effective in May 2008, to fix interest rates on \$40.0 million of floating rate debt through May 7, 2013, at 4.435% per year.

In December 2007, the Company entered into \$45.0 million of interest rate swap agreements that become effective in February and May 2008, to fix the interest rates on \$20.0 million of floating rate debt through February 22, 2013, at 4.134% per year and to fix the interest rates on \$25.0 million of floating rate debt through May 7, 2013, at 4.138% per year.

A 100 basis point increase in interest rates would increase interest expense by approximately \$2.2 million.

Recent Development—Termination of Interest Rate Swap Agreements

In connection with the issuance of \$172.5 million of senior unsecured convertible notes, and the repayment of a portion of the senior secured Term Loan B in May 2008, we terminated \$30 million of interest rate swap agreements which had been placed in October, 2005 at a loss of \$1.4 million. See “Recent Developments” above for a discussion of these events.

Commodity Cost Risks

We have a significant risk in our exposure to certain raw materials, which we estimate were over half of total cost of goods sold for fiscal 2008 and 2007. Our largest single raw material cost is lead, for which the cost remains volatile. To mitigate against large increases in lead costs, we enter into contracts with financial institutions to fix the price of lead. We had the following contracts at the dates shown below:

<u>Date</u>	<u>\$'s Under Contract</u> (in millions)	<u># Pounds Under Contract</u> (in millions)	<u>Average Contract Price/Pound</u>	<u>Approximate % of Lead Requirements⁽¹⁾</u>
March 31, 2008	\$72.3	58.5	\$1.24	12%
March 31, 2007	51.8	73.5	0.70	15%
March 31, 2006	17.4	32.8	0.53	7%

(1) Based on the fiscal year lead requirements for the period then ended.

We estimate that a 10% increase in our cost of lead (over our estimated cost in fiscal 2008) would increase our annual total cost of goods sold by approximately \$54 million or 3% of net sales.

Foreign Currency Exchange Rate Risks

The Company manufactures its products primarily in Bulgaria, China, France, Germany, Italy, Mexico, Poland, the United Kingdom and the United States. Over half of the Company's sales and expenses are transacted in foreign currencies. The Company's sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where it manufactures or purchases goods relative to the strength of the currencies in countries where the Company's products are sold. Additionally, as the Company reports its financial statements in the U.S. dollar, our financial results are affected by the strength of the currencies in countries where it has operations relative to the strength of the U.S. dollar. The principal foreign currencies in which the Company conducts business are the euro, British pound, Polish zloty, Mexican peso, Canadian dollar and Chinese renminbi.

We quantify and monitor our global foreign currency exposures. On a selective basis we will enter into foreign currency forward contracts and option contracts to reduce the volatility from currency movements that affect the Company. Based primarily on statistical currency correlations on the Company's exposures in fiscal 2008, we are highly confident that the pretax effect on annual earnings of changes in the principal currencies in which we conduct our business would not be in excess of approximately \$8 million in more than one year out of twenty years.

Our largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe, China and Mexico. Additionally, we have currency exposures from intercompany trade transactions. To hedge these exposures we have entered into forward and purchased option contracts with financial institutions to fix the value at which we will buy or sell certain currencies. Each contract is for a period not extending beyond one year. As of March 31, 2008, March 31, 2007 and March 31, 2006, we had entered into a total of \$99.6 million, \$93.1 million, and \$34.3 million forward contracts, with the March 31, 2008 details as follows:

<u>Transactions Hedged</u>	<u>\$US Equivalent (in millions)</u>	<u>Average Rate Hedged</u>	<u>Approximate % of Annual Requirements⁽²⁾</u>
Sell Euros for U.S. dollars	\$91.5	\$/€1.47	39%
Sell UK pounds for U.S. dollar	8.1	\$/£1.97	28%
Total	<u>\$99.6</u>		

(2) Based on the fiscal year currency requirements for the year ended March 31, 2008.

Foreign exchange translation adjustments are recorded on the Consolidated Statements of Comprehensive Income.

Based on changes in the timing and amount of interest rate and foreign currency exchange rate movements and our actual exposures and hedges, actual gains and losses in the future may differ from our historical results.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Contents

EnerSys

Consolidated financial statements for fiscal years ended March 31, 2008, 2007 and 2006

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	B-57
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements and Schedule	B-58
Audited Consolidated Financial Statements	
Consolidated Balance Sheets	B-59
Consolidated Statements of Income	B-60
Consolidated Statements of Changes in Stockholders' Equity	B-61
Consolidated Statements of Cash Flows	B-62
Notes to Consolidated Financial Statements	B-63

**Report of Independent Registered Public Accounting Firm
On Internal Control Over Financial Reporting**

The Board of Directors and Stockholders
EnerSys

We have audited EnerSys' internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). EnerSys' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report On Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, EnerSys maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of EnerSys as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2008 and our report dated June 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
June 6, 2008

**Report of Independent Registered Public Accounting Firm
On Consolidated Financial Statements and Schedule**

The Board of Directors and Stockholders
EnerSys

We have audited the accompanying consolidated balance sheets of EnerSys as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2008. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of EnerSys at March 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 of Notes to Consolidated Financial Statements, the Company changed its method for accounting for employee stock compensation plans and defined benefit pension and other postretirement plans in 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of EnerSys' internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
June 6, 2008

EnerSys
Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Data)

	March 31,	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,620	\$ 37,785
Accounts receivable, net	503,013	351,594
Inventories, net	335,729	234,326
Deferred taxes	16,848	11,433
Prepaid and other current assets	34,986	39,155
Total current assets	911,196	674,293
Property, plant, and equipment, net	339,997	300,995
Goodwill	358,429	332,874
Other intangible assets, net	80,139	80,540
Deferred taxes	3,347	—
Other assets	17,682	20,311
Total assets	<u>\$1,710,790</u>	<u>\$1,409,013</u>
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	\$ 41,113	\$ 11,729
Current portion of long-term debt	11,926	9,353
Current portion of capital lease obligations	1,042	1,563
Accounts payable	260,530	200,157
Accrued expenses	202,475	175,239
Deferred taxes	4,630	—
Total current liabilities	521,716	398,041
Long-term debt	371,685	378,667
Capital lease obligations	988	999
Deferred taxes	44,161	43,690
Other liabilities	80,697	45,517
Total liabilities	1,019,247	866,914
Stockholders' equity:		
Series A Convertible Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding at March 31, 2008 and at March 31, 2007	—	—
Common Stock, \$0.01 par value, 135,000,000 shares authorized, 49,060,906 shares issued and outstanding at March 31, 2008; 47,042,444 shares issued and outstanding at March 31, 2007	491	471
Additional paid-in capital	368,963	339,114
Retained earnings	159,176	99,480
Accumulated other comprehensive income	162,913	103,034
Total stockholders' equity	691,543	542,099
Total liabilities and stockholders' equity	<u>\$1,710,790</u>	<u>\$1,409,013</u>

See accompanying notes.

EnerSys
Consolidated Statements of Income
(In Thousands Except Share and Per Share Data)

	Fiscal year ended March 31,		
	2008	2007	2006
Net sales	\$ 2,026,640	\$ 1,504,474	\$ 1,283,265
Cost of goods sold	1,644,753	1,193,266	1,006,467
Gross profit	381,887	311,208	276,798
Operating expenses	249,350	221,102	199,900
Restructuring and other charges	13,191	—	8,553
Litigation settlement income	—	(3,753)	—
Operating earnings	119,346	93,859	68,345
Interest expense	28,917	27,733	24,900
Other (income) expense, net	4,234	3,024	(1,358)
Earnings before income taxes	86,195	63,102	44,803
Income tax expense	26,499	17,892	14,077
Net earnings	<u>\$ 59,696</u>	<u>\$ 45,210</u>	<u>\$ 30,726</u>
Net earnings per common share:			
Basic	<u>\$ 1.25</u>	<u>\$ 0.97</u>	<u>\$ 0.66</u>
Diluted	<u>\$ 1.22</u>	<u>\$ 0.95</u>	<u>\$ 0.66</u>
Weighted-average shares of common stock outstanding:			
Basic	<u>47,645,225</u>	<u>46,539,638</u>	<u>46,226,582</u>
Diluted	<u>48,644,450</u>	<u>47,546,240</u>	<u>46,788,363</u>

See accompanying notes.

EnerSys

Consolidated Statements of Changes in Stockholders' Equity
(In Thousands)

	Series A Convertible Preferred Stock	Common Stock	Paid-in Capital	Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at March 31, 2005	\$—	\$462	\$330,229	\$ —	\$ 23,544	\$ 83,415	\$437,650
Stock-based compensation	—	—	—	381	—	—	381
Issuance of restricted shares	—	3	3,468	(3,471)	—	—	—
Exercise of stock options	—	1	1,566	—	—	—	1,567
Net earnings	—	—	—	—	30,726	—	30,726
Other comprehensive income:							
Minimum pension liability							
adjustment, net of tax of \$58	—	—	—	—	—	(2,251)	(2,251)
Unrealized income on derivative							
instruments, net of tax of							
\$ (991)	—	—	—	—	—	1,739	1,739
Foreign currency translation							
adjustment	—	—	—	—	—	(24,624)	(24,624)
Comprehensive income	—	—	—	—	—	—	5,590
Balance at March 31, 2006	—	466	335,263	(3,090)	54,270	58,279	445,188
Reclassification of unearned stock							
compensation	—	—	(3,090)	3,090	—	—	—
Stock-based compensation	—	—	3,118	—	—	—	3,118
Exercise of stock options	—	5	1,797	—	—	—	1,802
Tax benefit from stock options	—	—	2,026	—	—	—	2,026
Adoption of SFAS 158, net of tax of							
\$832	—	—	—	—	—	(1,983)	(1,983)
Net earnings	—	—	—	—	45,210	—	45,210
Other comprehensive income:							
Minimum pension liability							
adjustment, net of tax of \$(7) ...	—	—	—	—	—	259	259
Unrealized income on derivative							
instruments, net of tax of							
\$(2,637)	—	—	—	—	—	4,966	4,966
Foreign currency translation							
adjustment	—	—	—	—	—	41,513	41,513
Comprehensive income	—	—	—	—	—	—	91,948
Balance at March 31, 2007	—	471	339,114	—	99,480	103,034	542,099
Stock-based compensation	—	—	3,028	—	—	—	3,028
Exercise of stock options	—	20	22,794	—	—	—	22,814
Tax benefit from stock options	—	—	4,027	—	—	—	4,027
Net earnings	—	—	—	—	59,696	—	59,696
Other comprehensive income:							
Pension funded status adjustment,							
net of tax of \$(411)	—	—	—	—	—	352	352
Unrealized loss on derivative							
instruments, net of tax benefit of							
\$8,499	—	—	—	—	—	(15,783)	(15,783)
Foreign currency translation							
adjustment	—	—	—	—	—	75,310	75,310
Comprehensive income	—	—	—	—	—	—	119,575
Balance at March 31, 2008	\$—	\$491	\$368,963	\$ —	\$159,176	\$162,913	\$691,543

See accompanying notes.

EnerSys
Consolidated Statements of Cash Flows
(In Thousands)

	Fiscal year ended March 31,		
	2008	2007	2006
Cash flows from operating activities			
Net earnings	\$ 59,696	\$ 45,210	\$ 30,726
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	49,215	47,358	43,270
Provision for doubtful accounts	1,436	315	596
Provision for deferred taxes	7,972	7,970	5,518
Stock compensation expense	3,028	3,118	381
Loss on disposal and impairment of fixed assets	3,908	730	2,604
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(107,113)	(22,673)	(56,017)
Inventory	(70,278)	(39,642)	(25,757)
Prepaid expenses and other current assets	374	(4,799)	2,244
Other assets	4,585	(322)	340
Accounts payable	34,593	31,659	42,531
Accrued expenses	15,805	6,522	(1,928)
Other liabilities	797	(3,022)	(1,636)
Net cash provided by operating activities	4,018	72,424	42,872
Cash flows from investing activities			
Capital expenditures	(45,037)	(42,355)	(39,665)
Purchase of businesses, net of cash acquired	(17,434)	(6,979)	(38,135)
Proceeds from disposal of property, plant, and equipment	321	282	924
Net cash used in investing activities	(62,150)	(49,052)	(76,876)
Cash flows from financing activities			
Net increase in short-term debt	23,516	3,607	1,453
Proceeds from the issuance of long-term debt	—	127	29,979
Deferred financing costs	(23)	(572)	(322)
Payments of long-term debt	(9,780)	(6,964)	(4,110)
Payments of capital lease obligations, net	(996)	(1,349)	(661)
Exercise of stock options	22,814	1,802	1,492
Tax benefits from exercise of stock options	4,027	2,026	74
Net cash provided by (used in) financing activities	39,558	(1,323)	27,905
Effect of exchange rate changes on cash	1,409	519	(25)
Net (decrease) increase in cash and cash equivalents	(17,165)	22,568	(6,124)
Cash and cash equivalents at beginning of year	37,785	15,217	21,341
Cash and cash equivalents at end of year	<u>\$ 20,620</u>	<u>\$ 37,785</u>	<u>\$ 15,217</u>

See accompanying notes.

EnerSys
Notes to Consolidated Financial Statements
March 31, 2008
(In Thousands, Except Share and Per Share Data)

1. Summary of Significant Accounting Policies

Description of Business

EnerSys and its predecessor companies have been manufacturers of industrial batteries for over 100 years. Morgan Stanley Capital Partners (currently Metalmark Capital) teamed with the management of Yuasa, Inc. in late 2000 to acquire from Yuasa Corporation (Japan) its reserve power and motive power battery businesses in North and South America. The Company was incorporated in October 2000 for the purpose of completing the Yuasa, Inc. acquisition from Yuasa Corporation (Japan). The acquired businesses included the *Exide*, *General* and *Yuasa* brands. On January 1, 2001, the Company changed its name from Yuasa, Inc. to EnerSys to reflect our focus on the energy systems nature of its businesses. In March 2002, the Company acquired the reserve power and motive power business of the Energy Storage Group (ESG), of Invensys plc (Invensys), whose principal brands were *Hawker*, *PowerSafe* and *DataSafe*. In June 2005, the Company acquired the motive power battery business of FIAMM, S.p.A. (FIAMM). FIAMM complements its existing European motive power business and its principal brand is *FIAMM MOTIVE POWER*. In October 2005, the Company acquired Gerate- und Akkumulatorwerk Zwickau GmbH (GAZ), based in Zwickau, Germany. GAZ is a producer of specialty nickel-based batteries utilized primarily in the energy, rail, telecommunications and uninterruptible power supply (UPS) industries worldwide, and its principal brand is *GAZ*. In May 2007, the Company acquired approximately a 97% interest in the reserve power and motive power business of Energia AD, located in Targovishte, Bulgaria. The acquisition provides the Company with an additional low cost manufacturing platform with substantial expansion potential and increases the Company's market presence in the rapidly growing Eastern European and Russian markets. Energia's principal brand is *Energia*.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned and wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

Foreign Currency Translation

Results of foreign operations are translated into United States dollars using average exchange rates during the period. The assets and liabilities are translated into United States dollars using current rates as of the balance sheet date. Gains or losses resulting from translating the foreign currency financial statements are accumulated as a separate component of accumulated other comprehensive income in stockholders' equity.

Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency of the applicable subsidiary are included in other income, net in the year in which the change occurs.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This occurs when we ship in accordance with terms of the underlying agreement, title transfers, collectibility is reasonably assured and pricing is fixed and determinable. Shipment terms to our battery product customers are primarily shipping point or destination and do not differ significantly between our regions of the world. Accordingly revenue is recognized when title is transferred to the customer. Amounts invoiced to customers for shipping and handling are classified as revenue. Taxes on revenue producing transactions are not included in net sales.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

The Company recognizes revenue from the service of its reserve power and motive power products when the respective services are performed.

Accruals are made at the time of sale for sales returns and other allowances based on the Company's experience.

Freight Expense

Amounts billed to customers for outbound freight costs are classified as sales in the consolidated income statement. Costs incurred by the Company for outbound freight costs to customers, inbound and transfer freight are classified in cost of sales.

Warranties

Substantially all of the Company's products are warranted for a period of one to twenty years. The Company provides for estimated product warranty expenses when the related products are sold.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less when purchased.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts of \$5,008 and \$4,420 at March 31, 2008 and 2007, respectively. The allowance is based on management's estimate of uncollectible accounts, analysis of historical data and trends, as well as review of all relevant factors concerning the financial capability of its customers. Accounts receivable are considered to be past due based on how payments are received compared to the customer's credit terms. Accounts are written off when management determines the account is worthless.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventory consists principally of material, labor, and associated overhead.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost and include expenditures that substantially increase the useful lives of the assets. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows: 10 to 33 years for buildings and improvements and 3 to 15 years for machinery and equipment.

Depreciation expense for the fiscal years ended March 31, 2008, 2007 and 2006 totaled \$47,151, \$45,379 and \$41,466, respectively. Maintenance and repairs are expensed as incurred. Interest on capital projects is capitalized during the construction period and amounted to \$829, \$756 and \$334 for the fiscal years ended March 31, 2008, 2007 and 2006, respectively.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

Intangible Assets

Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142") eliminated the amortization of goodwill and indefinite-lived intangible assets and requires a review at least annually for impairment. The Company has determined that trade names and goodwill are indefinite-lived assets, as defined by SFAS 142, and therefore not subject to amortization.

The Company tests for the impairment of its goodwill and trade names at least annually and whenever events or circumstances occur indicating that a possible impairment has been incurred. The Company utilizes financial projections of its reporting segments, certain cash flow measures, as well as its market capitalization in its determination of the fair value of these assets.

Environmental Expenditures

In accordance with SFAS No. 5 *Accounting for Contingencies* ("SFAS 5") and Statement of Position 96-1, *Environmental Remediation Liabilities*, we record a loss and establish a reserve for the remediation when it is probable that an asset has been impaired or a liability exists and the amount of the liability can be reasonable estimated. Reasonable estimates involve judgments made by management after considering a broad range of information including: notifications, demands or settlements that have been received from a regulatory authority or private party, estimates performed by independent engineering companies and outside counsel, available facts existing and proposed technology, the identification of other potentially responsible parties, their ability to contribute and prior experience. These judgments are reviewed quarterly as more information is received and the amounts reserved are updated as necessary. However, the reserves may materially differ from ultimate actual liabilities if the loss contingency is difficult to estimate or if management's judgments turn out to be inaccurate. If management believes no best estimate exists, the minimum probable loss is accrued.

Impairment of Long-Lived Assets

SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), requires that companies consider whether indicators of impairment of long-lived assets held for use are present. If such indicators are present, companies determine whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amount, and if so, companies recognize an impairment loss based on the excess of the carrying amount of the assets over their fair value. In fiscal 2008 and 2006, the Company recorded impairment charges of \$3,863 and \$1,273, respectively, which were included in restructuring and other charges.

Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and debt. The Company uses interest rate swap and option agreements to manage risk on a portion of its floating-rate debt. The Company uses lead hedge contracts to manage risk of the cost of lead. The Company uses foreign currency forward and purchased option contracts to manage the risk on the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe and China, as well as currency exposures from intercompany trade transactions.

Because of short maturities, the carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and short-term debt approximates fair value. The fair value of the Company's long-term debt, described in Note 8, approximates its carrying value and the fair value of derivative instruments is described in Note 11.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

Income Taxes

We account for income taxes in accordance with SFAS 109 No. 109, *Accounting for Income Taxes* ("SFAS 109"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between book and tax bases on recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance, if it is more likely than not that some portion or all of the deferred tax assets will not be recognized.

We evaluate on a quarterly basis the reliability of our deferred tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These temporary differences are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be realized.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The provision for income taxes represents income taxes paid or payable for the current year and the change in deferred taxes.

In accordance with *FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, which the Company adopted on April 1, 2007, the Company evaluates tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, the Company does not recognize any portion of the benefit in the financial statements. If the more likely than not threshold is not met in the period for which a tax position is taken, the Company may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period. (See Note 12.)

Deferred Financing Fees

In March 2004, the Company entered into two credit facilities with various portions that will expire in 2009, 2011 and 2012. Deferred financing fees associated with these credit facilities of \$11,000 were incurred and will be amortized over the life of the new credit facilities. Deferred financing fees of \$6,569 related to the previously existing credit facility were written off.

In August 2004, the Company prepaid the entire \$120,000 principal and accrued interest on the senior second lien term loan and prepaid a portion, \$17,900, of the \$380,000 senior secured term loan B. Deferred financing fees of \$3,622, relating to the prepaid \$137,900 of debt were written off in August 2004.

Deferred financing fees, net of accumulated amortization totaled \$4,641 and \$6,054 as of March 31, 2008 and 2007, respectively. Amortization expense included in interest expense was \$1,586, \$1,462 and \$1,384 for the fiscal years ended March 31, 2008, 2007 and 2006, respectively.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

Derivative Financial Instruments

The Company has entered into interest rate swap agreements and option agreements to manage risk on a portion of its long-term floating-rate debt. The Company has entered into lead forward purchase contracts to manage risk of the cost of lead. The Company has entered into foreign exchange forward contracts and purchased option contracts to manage risk on foreign currency exposures. The agreements are with major financial institutions, and the Company believes the risk of nonperformance by the counterparties is negligible. The counterparties to certain of these agreements are lenders under the Credit Agreement and liabilities related to these agreements are covered under the security provisions of the Credit Agreement. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities. The Company recognizes all derivatives as either assets or liabilities in the accompanying balance sheet and measures those instruments at fair value. Changes in the fair value of those instruments are reported in accumulated other comprehensive income if they qualify for hedge accounting or in earnings if they do not qualify for hedge accounting. Derivatives qualify for hedge accounting if they are designated as hedge instruments and if the hedge is highly effective in achieving offsetting changes in the fair value or cash flow of the asset or liability hedged. Effectiveness is measured on a regular basis using statistical analysis and by comparing the overall changes in the expected cash flows on the lead and foreign currency forward contracts with the changes in the expected all-in cash outflow required for the lead and foreign currency purchases. This analysis is performed on the initial purchases quarterly that cover the quantities hedged. Accordingly, gains and losses from changes in derivative fair value are deferred until the underlying transaction occurs. Interest expense on the debt is adjusted to include the payments made or received under such interest rate swap agreements. Inventory and cost of goods sold are adjusted to include the payments made or received under such lead and foreign currency forward contracts. Any deferred gains or losses associated with derivative instruments, which on infrequent occasions may be terminated prior to maturity, are recognized in earnings in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, such instrument would be closed and the resulting gain or loss would be recognized in earnings.

Pension Plans

The Company uses certain assumptions in the calculation of the actuarial valuation of its defined benefit plans. These assumptions include the weighted average discount rate, rates of increase in compensation levels and expected long-term rates of return of assets. If actual results are less favorable than those projected by the Company, additional expense may be required.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB No. 87, 88, 106, and 132(R)* ("SFAS 158"). SFAS 158 requires an entity to recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, measure a defined benefit postretirement plan's assets and obligation that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in other comprehensive income in the year in which the change occurs. The requirement to recognize the funded status of a defined benefit postretirement plan became effective March 31, 2007, and the Company adopted the recognition requirements as of March 31, 2007.

In connection with the fiscal 2007 adoption of SFAS 158, the Company recorded an additional pension liability of \$2,815 for the remaining underfunded status of its benefit plans at March 31, 2007, with an offsetting amount recorded in accumulated other comprehensive income, net of taxes.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

Stock-Based Compensation Plans

The Company maintains three management equity incentive plans that reserve 11,289,232 shares of Common Stock for the grant of various classes of nonqualified stock options, restricted stock, restricted stock units and other forms of equity based compensation. The 2000 Management Equity Plan, the 2004 Equity Incentive Plan and the 2006 Equity Incentive Plan are described more fully in Note 16. Non-qualified stock options have been granted to employees under these plans at prices not less than the fair market value of the shares on the dates the options were granted. Generally, options vest over a four-year period and become exercisable in annual installments over the vesting period. Options generally expire in 10 years. As of March 31, 2008, the Company had 2,344,800 shares available for future grants.

During fiscal year 2006, the Company followed the provisions of SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123* ("SFAS 148") that allowed an entity to continue to measure compensation cost for those instruments using the intrinsic-value-based method of accounting prescribed by Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), provided it disclosed the effect of SFAS 123, as amended by SFAS 148, in footnotes to the financial statements. Accordingly, no stock option related compensation expense was recognized for its stock-based compensation plans during fiscal 2006.

On April 1, 2006, the Company adopted, using the modified prospective application, Statement of Financial Accounting Standards No. 123(revised 2004), *Share-Based Payment* ("SFAS 123(R)"). SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options and shares purchased under an employee stock purchase plan (if certain parameters are not met), to be recognized in the financial statements based on their fair values. Under the modified prospective method, prior interim period and prior fiscal year financial statements will not reflect any restated amounts for the adoption of SFAS 123(R). Upon its adoption of SFAS 123(R), the Company began recording compensation cost related to the continued vesting of all stock options that remained unvested as of April 1, 2006, as well as for all stock options granted, modified or cancelled after the Company's adoption date. The compensation cost is being recorded based on the fair value at the grant date.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income are as follows:

	<u>Beginning Balance</u>	<u>Before-Tax Amount</u>	<u>Tax Benefit (Expense)</u>	<u>Net-of-Tax Amount</u>	<u>Ending Balance</u>
March 31, 2008					
Pension funded status adjustment	\$ (5,690)	\$ (59)	\$ 411	\$ 352	\$ (5,338)
Unrealized gain (loss) income on derivative instruments	6,873	(24,282)	8,499	(15,783)	(8,910)
Foreign currency translation adjustment	101,851	75,310	—	75,310	177,161
Accumulated other comprehensive income	<u>\$103,034</u>	<u>50,969</u>	<u>8,910</u>	<u>59,879</u>	<u>162,913</u>
March 31, 2007					
Minimum pension liabilities	\$ (3,966)	\$ (2,549)	\$ 825	\$ (1,724)	\$ (5,690)
Unrealized income on derivative instruments	1,907	7,603	(2,637)	4,966	6,873
Foreign currency translation adjustment	60,338	41,513	—	41,513	101,851
Accumulated other comprehensive income	<u>\$ 58,279</u>	<u>\$ 46,567</u>	<u>\$(1,812)</u>	<u>\$ 44,755</u>	<u>\$103,034</u>

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

	Beginning Balance	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	Ending Balance
March 31, 2006					
Minimum pension liabilities	\$ (1,715)	\$ (2,309)	\$ 58	\$ (2,251)	\$ (3,966)
Unrealized income on derivative instruments	168	2,730	(991)	1,739	1,907
Foreign currency translation adjustment	84,962	(24,624)	—	(24,624)	60,338
Accumulated other comprehensive income	<u>\$83,415</u>	<u>\$(24,203)</u>	<u>\$(933)</u>	<u>\$(25,136)</u>	<u>\$58,279</u>

Earnings Per Share

Basic earnings per common share (EPS) are computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

New and Proposed Accounting Pronouncements

On March 19, 2008 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161") which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company believes SFAS 161 will have no impact on its financial position and results of operations.

On December 4, 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* ("SFAS 141(R)") which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. To achieve this goal, the new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS 141(R) on its financial position and results of operations.

In February, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for the Company for the fiscal year ended March 31, 2009. The Company is in the process of reviewing SFAS 159 and has not determined the effects on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. The statement applies under other accounting

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

pronouncements that require or permit fair value measurements. Accordingly, SFAS 157 does not require any new fair value measurements. However, for some entities, the application of SFAS 157 will change current practice. The Company is required to adopt SFAS 157 in the first quarter of fiscal year 2009. The Company is in the process of reviewing SFAS 157 and has not determined the effects on the consolidated financial statements, however, it does not believe the adoption of SFAS 157 will have a material impact on its financial statements.

In May 2008, the FASB issued Staff Position paper APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"). This FASB Staff Position ("FSP") will change the accounting treatment for convertible securities which the issuer may settle fully or partially in cash. Under the final FSP, cash settled convertible securities will be separated into their debt and equity components. The value assigned to the debt component will be the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds for the convertible debt and the amount reflected as a debt liability will be recorded as additional paid-in capital. As a result, the debt will be recorded at a discount reflecting its below market coupon interest rate. The debt will subsequently be accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected on the income statement. This change in methodology will affect the calculations of net income and earnings per share for many issuers of cash settled convertible securities. This FSP is effective for financial statements issued by the Company for the first quarter of fiscal year 2010. The Company is currently evaluating the impact that FSP APB 14-1 may have on its financial position and results of operations.

Collective Bargaining

At March 31, 2008, the Company had approximately 8,600 employees. Of these employees, approximately 3,600, almost all of whom work in the Company's European facilities, were covered by collective bargaining agreements. The average term of these agreements is two years with the longest term being three and one-half years, and these agreements expire over the period through 2008-2009.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Acquisitions

On May 18, 2007, the Company acquired approximately a 97% interest in Energia AD, a producer of industrial batteries, located in Targovishte, Bulgaria. The total purchase price for this transaction was approximately euro 13,000 (approximately \$17,000) including transaction costs and adjustments and was financed using EnerSys' cash and existing credit facilities. The acquisition provides the Company with an additional low cost manufacturing platform with substantial expansion potential and increases the Company's market presence in the rapidly growing Eastern European and Russian markets.

Effective January 1, 2007, the Company acquired the lead-acid battery business of Leclanché SA based in Yverdon-les-Bains, Switzerland. The total purchase price for this transaction was approximately \$800 and was financed using existing EnerSys credit facilities. The Company assumed the customers and existing contracts of the Leclanché lead-acid battery business along with certain sales and service employees in order to maintain relationships with current customers. The acquisition provides the Company greater access to the Swiss market.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

On August 22, 2006, the Company acquired the assets, including manufacturing facilities, of Chaozhou Xuntong Power Source Company Limited ("CFT"), located in Chaoan, China. This facility manufactures valve-regulated, lead-acid batteries. This acquisition provides the Company with additional capacity needed to meet the growing customer demand for reserve power batteries. The total purchase price for this transaction was approximately \$5,300 and was financed using existing EnerSys credit facilities.

On May 18, 2006, the Company purchased the assets of Alliant Techsystems' (NYSE:ATK) lithium primary battery business, located at its Power Sources Center ("PSC") in Horsham, PA. The total purchase price for this transaction was approximately \$2,200 and was financed using existing EnerSys credit facilities. PSC produces lithium power sources, primarily for aerospace & defense applications. As part of the transaction, ATK has signed a 5-year supply agreement for certain of its requirements for products produced at PSC. PSC is now known as EnerSys Advanced Systems Inc. ("EAS").

On October 11, 2005, the Company completed the acquisition of Geräte- und Akkumulatorwerk Zwickau GmbH (GAZ), based in Zwickau, Germany. The total cash purchase price net of cash received for this transaction was approximately \$2,671 (excluding assumed debt of approximately \$760) and was financed using existing EnerSys credit facilities. GAZ is a producer of specialty nickel-based batteries utilized primarily in the energy, rail, telecommunications and uninterruptible power supply (UPS) industries worldwide. The acquisition has been accounted for as a purchase and has resulted in the recognition of \$1,891 of goodwill in the Company's financial statements.

The Company made initial allocations of the purchase prices at the dates of the acquisitions based upon its understanding of the fair value of the acquired assets and liabilities. The Company obtained this information during due diligence and through other sources. In the months after the closings, as the Company obtains additional information about these assets and liabilities, the estimates of fair value will be refined and the allocations of purchase prices will be adjusted. Examples of factors and information that the Company uses to refine the allocations include tangible and intangible asset appraisals and cost data related to business integration.

The results of Energia, Leclanché, CFT, EAS, and GAZ have been included in the Company's results of operations from the dates of their respective acquisitions. Pro forma earnings per share computations have not been presented as these acquisitions are not considered material.

In connection with certain of its acquisitions, the Company formulated restructuring plans for the integration of the acquired businesses. See Note 20 for additional information regarding these plans.

3. Inventories

Net inventories consist of:

	<u>2008</u>	<u>2007</u>
Raw materials	\$ 81,645	\$ 53,789
Work-in-process	98,320	62,881
Finished goods	155,764	117,656
Total	<u>\$335,729</u>	<u>\$234,326</u>

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

Inventory reserves for obsolescence and other estimated losses, mainly relating to finished goods, were \$13,963 and \$10,024 at March 31, 2008 and 2007, respectively.

4. Property, Plant, and Equipment

Property, plant, and equipment consist of:

	<u>2008</u>	<u>2007</u>
Land, buildings, and improvements	\$ 162,763	\$ 130,820
Machinery and equipment	418,957	353,907
Construction in progress	28,994	19,757
	<u>610,714</u>	<u>504,484</u>
Less accumulated depreciation	(270,717)	(203,489)
Total	<u>\$ 339,997</u>	<u>\$ 300,995</u>

5. Goodwill and Other Intangible Assets

Information regarding the Company's goodwill and other intangible assets follows:

	<u>2008</u>			<u>2007</u>		
	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>
Unamortizable intangible assets:						
Goodwill	\$359,841	\$(1,412)	\$358,429	\$334,286	\$(1,412)	\$332,874
Trademarks	79,746	(953)	78,793	79,746	(953)	78,793
Amortizable intangible assets:						
Customer lists	1,439	(783)	656	1,361	(491)	870
Non-compete	725	(377)	348	679	(240)	439
Patents	250	(125)	125	250	(109)	141
Trademarks	464	(307)	157	365	(134)	231
Licenses	77	(17)	60	69	(3)	66
Total	<u>\$442,542</u>	<u>\$(3,974)</u>	<u>\$438,568</u>	<u>\$416,756</u>	<u>\$(3,342)</u>	<u>\$413,414</u>

The changes in the carrying amount of goodwill by business segment are as follows:

	<u>2008</u>			<u>2007</u>		
	<u>Reserve</u>	<u>Motive</u>	<u>Total</u>	<u>Reserve</u>	<u>Motive</u>	<u>Total</u>
Balance at beginning of year	\$168,109	\$164,765	\$332,874	\$159,685	\$157,044	\$316,729
Energia acquisition	—	3,000	3,000	—	—	—
FIAMM acquisition	—	—	—	—	(15)	(15)
Other acquisitions	—	—	—	1,073	259	1,332
Income tax adjustment for ESG and Yuasa, Inc. acquisitions	—	(5,188)	(5,188)	(1,362)	(1,786)	(3,148)
Foreign currency translation gain	11,919	15,824	27,743	8,713	9,263	17,976
Balance at end of year	<u>\$180,028</u>	<u>\$178,401</u>	<u>\$358,429</u>	<u>\$168,109</u>	<u>\$164,765</u>	<u>\$332,874</u>

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

The Company estimated tax-deductible goodwill to be approximately \$19,295, \$21,500 and \$23,000 as of March 31, 2008, 2007 and 2006, respectively.

6. Other Assets

Prepaid and other current assets consist of the following:

	March 31,	
	2008	2007
Prepaid other taxes	\$ 8,401	\$ 4,773
Prepaid income taxes	4,826	3,306
Non-trade receivables	4,138	9,694
Lead hedges	1,685	12,040
Other	15,936	9,342
Total	<u>\$34,986</u>	<u>\$39,155</u>

Other assets consist of the following:

	March 31,	
	2008	2007
Leases receivable	\$ 9,115	\$ 8,804
Rental batteries	3,705	2,710
Deferred financing fees	3,034	4,524
Other	1,828	4,273
Total	<u>\$17,682</u>	<u>\$20,311</u>

7. Accrued Expenses

Accrued expenses consist of the following:

	March 31,	
	2008	2007
Payroll and benefits	\$ 60,425	\$ 46,919
Warranty	34,037	27,533
Accrued selling expenses	30,598	24,345
Income taxes, currently payable	15,568	18,374
Restructuring	8,295	5,408
VAT and other non-income taxes	8,224	9,367
Freight	7,583	5,417
Pension and social security	2,995	4,973
Interest	2,469	2,480
Other	32,281	30,423
Total	<u>\$202,475</u>	<u>\$175,239</u>

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

8. Debt

In August 2004, the Company amended its credit agreement and reduced our borrowing rates on the senior secured term loan B by 0.50% to LIBOR + 2.00%. The then existing term loans (\$361,137 plus accrued interest) were paid in full and simultaneously new term B loans of \$365,000 were borrowed.

As of February 5, 2007, EnerSys completed the Fourth Amendment to the Credit Agreement in connection with its \$480,000 senior secured Credit Agreement. The Lenders approved a reduction of 25 basis points in the credit spread to LIBOR +175 basis points on \$355,900 of term loans which will reduce the Company's interest costs by approximately \$800 per year during the term. The reduction was effective as of February 9, 2007. The then existing \$355,900 term loans were converted into new term B loans.

The \$355,900 senior secured term loan B is subject to a 0.25% quarterly principal amortization and matures on March 17, 2011. The \$100,000 revolving credit line matures on March 17, 2009. Obligations under the credit facilities are secured by substantially all of our United States existing and hereafter acquired assets, including substantially all of the capital stock of all of our United States subsidiaries that are guarantors under the new credit facility, and 65% of the capital stock of certain of our foreign subsidiaries that are owned by our United States companies. Borrowings under the credit agreements bear interest at a floating rate based, at our option, upon (i) a LIBOR rate plus an applicable percentage (currently 1.75%) or (ii) the greater of the federal funds rate plus 0.5% or the prime rate, plus an applicable percentage (currently 0.75%). There is a provision that would require prepayment based upon certain excess cash flow amounts, as defined. There are no prepayment penalties on loans under the \$455,900 senior secured credit facility.

On June 15, 2005, the Company entered in a Euro 25,000 Credit Facility Agreement among EnerSys Holdings (Luxembourg), S.a.r.l., San Paolo IMI S.p.A., as Facility Agent and lender, and Banca Intesa S.p.A., as lender (the "Euro Credit Agreement"). The proceeds from the Euro Credit Agreement were used to reduce the outstanding balance of the U.S. Credit Agreement that was utilized as bridge financing for the June 1, 2005 acquisition of the motive power battery business of FIAMM S.p.A. The Euro Credit Agreement matures on June 30, 2011, and is subject to quarterly principal amortization between €1,000 - €1,750 beginning March 31, 2007. Obligations under the Euro Credit Agreement are secured by a pledge of the shares of our Italian subsidiary and guaranty from EnerSys Capital Inc., a subsidiary of the Company. Borrowings under the Euro Credit Agreement bear interest at a floating rate based upon a EURIBOR rate plus 1.15%.

Effective November 27, 2006, the Company amended its Euro 25,000 Credit Agreement, and effective June 29, 2006, the Company amended its senior credit facility, which consisted of a \$358,600 term loan B and a \$100,000 revolving credit line. Under the amendments, the lenders approved the elimination of the covenants relating to the Company's senior secured debt leverage ratio (while maintaining the covenants relating to its total debt leverage ratio) and several minor technical changes in the agreement. The Company pursued these amendments to provide greater operating flexibility and to increase its borrowing capacity for potential acquisition opportunities.

Effective April 30, 2007, the Company amended its Euro 25,000 Credit Agreement. Under the amendment, the lenders approved the acquisition of Energia AD.

In connection with the acquisition of ESG, in March 22, 2002, the Company assumed a \$5,000 note payable to the prior owner of an acquired manufacturing plant in Mexico. The note was due on February 2, 2004, plus accrued interest at a one-year LIBOR rate (3.28% at March 31, 2005). In fiscal 2004, the Company paid \$1,786 on the note and the balance was suspended pending settlement of certain disputes. In fiscal 2006 and 2005, the Company made principal payments totaling \$320 and \$230, respectively on this note. In October 2006, this debt was settled in a confidential arrangement.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

As of March 31, 2008 and 2007, the Company had available under all its lines of credit approximately \$188,600 and \$165,600, respectively. Included in the March 31, 2008 and 2007 amounts are \$102,100 and \$66,800, respectively, of uncommitted lines of credit.

The average effective borrowing rates for 2008 and 2007 were 6.5% and 6.6% respectively.

The following summarizes the Company's long-term debt:

	<u>March 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Term Loan B: Payable in quarterly installments of \$890 through March 17, 2011, with the remaining balance due on March 17, 2011, bearing interest at 4.74% at March 31, 2008 ⁽¹⁾	\$351,427	\$354,985	\$358,613
Euro Term Loan: Payable in quarterly installments between €1,000 and €1,750 beginning March 31, 2008 through June 30, 2011, bearing interest at 5.88% at March 31, 2008	31,151	32,098	30,343
Note payable	—	—	2,664
Other	1,033	937	747
Total debt	383,611	388,020	392,367
Less current portion	11,926	9,353	8,225
Total long-term debt	<u>\$371,685</u>	<u>\$378,667</u>	<u>\$384,142</u>

(1) LIBOR component on \$203,000 swapped into fixed rates as discussed in Note 11.

The Company paid \$28,534, \$25,961 and \$23,704, net of interest received, for interest during the fiscal years ended March 31, 2008, 2007 and 2006, respectively.

Aggregate maturities of long-term debt are as follows:

2009	\$ 11,926
2010	14,363
2011	354,956
2012	2,366
2013	—
Thereafter	—
	<u>\$383,611</u>

The Company's financing agreements contain various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, would limit the Company's ability to conduct certain specified business transactions including incurring debt, mergers, consolidations or similar transactions, buying or selling assets out of the ordinary course of business, engaging in sale and leaseback transactions, paying dividends and certain other actions. The Company is in compliance with all such covenants.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

As of March 31, 2008 and 2007, the Company had \$1,150 of standby letters of credit outstanding that reduced the borrowings available under the Revolving Credit Line. As of March 31, 2008 and 2007, the Company had \$0 and \$1,242, respectively, of bank guarantees.

See Note 26, Subsequent Event for a discussion of Concurrent Public Offerings of Senior Convertible Notes, a Private Offering of a New Senior Secured Credit Facility and amendments to the Company's credit agreements.

9. Leases

The Company's future minimum lease payments under capital and operating leases that have noncancelable terms in excess of one year at March 31, 2008 are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2009	\$1,042	\$13,170
2010	870	9,658
2011	255	6,108
2012	—	4,030
2013	—	2,595
Thereafter	—	2,317
Total minimum lease payments	2,167	<u>\$37,878</u>
Amounts representing interest	137	
Net minimum lease payments, including current portion of \$1,042 ...	<u>\$2,030</u>	

Rental expense was \$28,181, \$25,593 and \$22,555 for the fiscal years ended March 31, 2008, 2007 and 2006, respectively. Amortization of capitalized leased assets is included in depreciation expense. Certain operating lease agreements contain renewal or purchase options and/or escalation clauses.

10. Other Liabilities

Other long-term liabilities consists of the following:

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
Pension and profit sharing obligation	\$30,712	\$24,534
Long-term income taxes payable	14,160	—
Interest rate swap liabilities	11,593	—
Restructuring reserves	7,545	7,640
Minority interest	3,437	2,799
Deferred income	3,251	2,810
Other	9,999	7,734
Total	<u>\$80,697</u>	<u>\$45,517</u>

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

11. Derivative Financial Instruments

Interest Rate Swap Agreements

The Company is exposed to changes in variable U.S. interest rates on borrowings under our credit agreements. On a selective basis, from time to time, the Company enters into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable rate debt. The Company enters into interest rate swap agreements to fix the interest rate on portions of its floating-rate obligations. Management considers the interest rate swaps to be highly effective against changes in the fair value of the underlying debt based on the criteria in SFAS 133. Cash flows related to the interest rate swap agreements are included in interest expense over the terms of the agreements.

Currently, such interest rate swap agreements effectively convert \$203.0 million of the Company's variable-rate debt to a fixed-rate basis, utilizing the three-month London Interbank Offered Rate, or LIBOR, as a floating rate reference. During August, November and December 2007 (see below), the Company entered into an additional \$125 million of interest rate swap agreements that are effective in February and May 2008 and will almost entirely replace \$128 million of interest rate swaps that mature in February and May 2008. The following commentary provides details for the interest rate swap agreements:

In February 2001, the Company entered into interest rate swap agreements to fix the interest rate on \$60,000 of its floating-rate obligations at a rate of 5.59% per annum through February 22, 2006. In April and May 2004, the Company amended these agreements to extend the maturity to February 22, 2008, and reduce the fixed rate to 5.16% per annum beginning May 24, 2004.

In April 2004, the Company entered into interest rate swap agreements to fix the interest rate on an additional \$60,000 of its floating-rate obligations, beginning May 5, 2004, at a rate of 2.85% per annum in Year 1, 3.15% per annum in Year 2, 3.95% per annum in Year 3 and 4.75% per annum in Year 4. These agreements expire on May 5, 2008.

In August 2004, the Company entered into an interest rate swap agreement to fix the interest rate on an additional \$8,000 of its floating-rate obligations, beginning November 5, 2004, at a rate of 2.85% per annum for half of Year 1, 3.15% per annum in Year 2, 3.95% per annum in Year 3 and 4.20% per annum in Year 4. These agreements expire on May 5, 2008.

In October 2005, the Company entered into interest swap agreements to fix interest rates on an additional \$75,000 of its floating rate obligations, beginning December 22, 2005, at a rate of 4.25% per annum in Year 1, 4.525% per annum in Year 2, 4.80% per annum in Year 3, 5.075% per annum in Year 4 and 5.47% per annum in Year 5. These agreements expire on December 22, 2010.

In August 2007, the Company entered into interest rate swap agreements, that became effective in February 2008, to fix interest rates on \$40.0 million of floating rate debt through February 22, 2011, at 4.85% per year.

In November 2007, the Company entered into interest rate swap agreements that become effective in May 2008, to fix interest rates on \$40.0 million of floating rate debt through May 7, 2013, at 4.435% per year.

In December 2007, the Company entered into \$45.0 million of interest rate swap agreements that become effective in February and May 2008, to fix the interest rates on \$20.0 million of floating rate debt through February 22, 2013, at 4.134% per year and to fix the interest rates on \$25.0 million of floating rate debt through May 7, 2013, at 4.138% per year.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

The Company recorded unrealized (losses) gains on interest rate swaps of (\$11,612), (\$2,349) and \$2,913 for the fiscal years ended March 31, 2008, 2007 and 2006, respectively, that is included in accumulated other comprehensive income. In the coming twelve months, the Company anticipates that approximately \$4,900 of unrealized losses will be reclassified from accumulated other comprehensive income to earnings, as approximately a \$3,540 increase in interest expense and approximately \$1,360 of refinancing related expenses. The estimated fair value of the Company's interest rate swap agreements was a (liability) asset of (\$11,593), \$19 and \$2,368 at March 31, 2008, 2007 and 2006, respectively, as estimated based on quotes from market makers of these instruments. The Company recorded an expense (gain) of (\$588), (\$1,754) and \$311 in fiscal 2008, 2007 and 2006, respectively, which was recorded as an increase (decrease) in interest expense.

See Note 26, Subsequent Event, for the termination of \$30 million of interest rate swap agreements.

Lead Hedge Contracts

During the fiscal years ending March 31, 2008, 2007 and 2006, the Company entered into lead hedge contracts to fix the price for lead purchases. Management considers the lead hedge contracts to be highly effective against changes in the fair value of the underlying lead purchases based on the criteria in SFAS 133. Each contract is for a period not extending beyond one year. Realized gains (losses) related to the lead hedge contracts are included in inventory. The Company recorded unrealized gains (losses) on lead hedge contracts of (\$10,355), \$11,572 and (\$318) for the fiscal years ended March 31, 2008, 2007 and 2006, respectively, which is included in other comprehensive income. The fair value of open lead hedge contracts at March 31, 2008, 2007 and 2006, was \$1,685, \$12,040 and \$401, respectively. The gain on the settlement of lead hedge contracts during fiscal 2008, 2007 and 2006, was \$20,592, \$7,393 and \$5,254, a portion of which is recorded as a reduction of cost of goods sold and a portion of which was included in inventory at March 31, 2008, 2007 and 2006.

Foreign Currency Forward Contracts

On a selective basis the Company will enter into foreign currency forward contracts and option contracts to reduce the volatility from currency movements that affect the Company. The Company's largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe, China and Mexico. To hedge these exposures the Company may enter into foreign currency forward contracts and option contracts with financial institutions. Each contract is for a period not extending beyond one year. As of March 31, 2008 and 2007, the Company had entered into a total of \$99,550 and \$93,050, respectively, foreign currency forward contracts. The Company recorded an unrealized gain (loss) on foreign currency forward contracts of (\$2,316) and (\$1,620) for the fiscal years ended March 31, 2008 and 2007, respectively, which is included in other comprehensive income. The fair value of open foreign currency forward contracts at March 31, 2008 and 2007, was (\$3,801) and (\$1,485). The net gain/(loss) on the settlement of foreign currency hedge contracts during fiscal 2008 and 2007, was (\$5,635) and (\$2,553), respectively, a portion of which was recorded as a decrease (increase) to cost of goods sold and a portion of which was included in inventory at March 31, 2008 and 2007.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

12. Income Taxes

Income tax expense is composed of the following:

	Fiscal year ended March 31,		
	2008	2007	2006
Current:			
Federal	\$ 220	\$ 46	\$ 503
State	976	532	160
Foreign	17,331	9,344	7,896
Total current	18,527	9,922	8,559
Deferred:			
Federal	3,898	3,986	8,036
State	(583)	(622)	(108)
Foreign	4,657	4,606	(2,410)
Total deferred	7,972	7,970	5,518
Income tax expense	<u>\$26,499</u>	<u>\$17,892</u>	<u>\$14,077</u>

Earnings before income taxes consists of the following:

	Fiscal year ended March 31,		
	2008	2007	2006
United States	\$18,465	\$12,505	\$15,083
Foreign	67,730	50,597	29,720
Earnings before income taxes	<u>\$86,195</u>	<u>\$63,102</u>	<u>\$44,803</u>

Income taxes paid by the Company for the fiscal years ended March 31, 2008, 2007 and 2006 were \$7,255, \$11,967 and \$7,111, respectively.

The following table sets forth the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities:

	March 31,	
	2008	2007
Deferred tax assets:		
Accounts receivable	\$ 1,129	\$ 943
Inventories	5,391	5,140
Net operating loss carryforwards	82,116	95,625
Accrued liabilities and restructuring expenses	15,821	15,033
Other assets	13,506	8,709
Gross deferred tax assets	117,963	125,450
Less valuation allowance	(78,374)	(86,770)
Total deferred tax assets	39,589	38,680
Deferred tax liabilities:		
Property, plant and equipment	30,560	30,536
Other intangible assets	35,805	33,596
Other liabilities	1,820	6,805
Total deferred tax liabilities	68,185	70,937
Net deferred tax liabilities	<u>\$ (28,596)</u>	<u>\$ (32,257)</u>

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

The Company has approximately \$12,417 in United States federal net operating loss carryforwards, approximately \$9,593 of which are limited by Section 382 of the Internal Revenue Code, that begin to expire in the year ending 2023. The Company has recorded a valuation allowance against approximately \$6,178 of the losses limited by Section 382 as they will expire unused due to the Section 382 limitation. The Company also has \$1,197 of foreign tax credit carryforwards which begin to expire in the year ending 2018, and \$861 of alternative minimum tax credits which have an unlimited life.

The net operating loss carryforwards at March 31, 2008, related to the Company's foreign subsidiaries are approximately \$251,122. Some of these net operating loss carryforwards have an unlimited life, while others expire at various times over the next twenty years. In addition, the Company also had approximately \$80,528 of net operating loss carryforwards for state tax purposes that expire at various times over the next 20 years. The Company has recorded a valuation allowance for net deferred tax assets in certain foreign and state tax jurisdictions, primarily related to net operating loss carryforwards, due to the significant losses incurred in these tax jurisdictions. Approximately \$47,673 of the March 31, 2008, valuation allowance would be allocated to reduce goodwill should the Company subsequently recognize tax benefits for the related deferred tax assets. During the fiscal years ended March 31, 2008 and 2007, the Company recorded tax benefits of \$23 and \$385, respectively, due to the utilization of net operating loss carryforwards in certain foreign subsidiaries.

A reconciliation of income taxes at the statutory rate to the income tax provision is as follows:

	Fiscal year ended March 31,		
	2008	2007	2006
United States statutory income tax expense (at 35%)	\$30,168	\$22,086	\$15,681
Increase (decrease) resulting from:			
State income taxes, net of federal effect	623	225	33
Nondeductible expenses	467	94	1,350
Effect of foreign operations	(7,682)	(6,102)	(3,819)
Valuation allowance	2,923	1,589	832
Income tax expense	<u>\$26,499</u>	<u>\$17,892</u>	<u>\$14,077</u>

The effective income tax rate was 30.7 % in fiscal 2008, compared to 28.4 % in fiscal 2007. The fiscal 2007 tax expense includes a non-recurring tax benefit of approximately \$2,000 recorded in the third fiscal quarter of 2007, attributable to the favorable resolution of a prior year tax matter related to our European business, which reduced our book effective tax rate by 3.2 percentage points. Additionally, in fiscal 2007, changes in the mix of earnings among our various legal entities in multiple foreign jurisdictions resulted in an approximate one percentage point decrease on our effective tax rate.

At March 31, 2008, the Company has not recorded United States income or foreign withholding taxes on approximately \$175,975 of undistributed earnings of foreign subsidiaries that could be subject to taxation if remitted to the United States because the Company currently plans to keep these amounts permanently invested overseas.

On April 1, 2007, the Company adopted *FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109* ("FIN 48") which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

As a result of the implementation of FIN 48, the Company did not change the overall total of previously recorded tax liabilities and benefits, and was not required to record any cumulative effect adjustment to retained earnings. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

April 1, 2007	\$13,780
Increases related to current year tax positions	1,303
Increases related to prior year tax positions due to foreign currency translation ...	1,151
Decreases related to prior year tax positions	(1,234)
Lapse of statute of limitations	(1,690)
March 31, 2008	<u>\$13,310</u>

Included in the balance of unrecognized tax benefits at March 31, 2008 are potential benefits of approximately \$11,700 that, if recognized, would be included in the Company's Statement of Income and have a favorable impact on both the Company's Statement of Income and effective tax rate.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002.

The Company anticipates that it is reasonably possible that an unrecognized tax benefit related to a foreign jurisdiction transfer pricing matter could be resolved as a result of the completion of a tax audit within the next 12 months. The Company also anticipates that it is reasonably possible that the statute of limitations related to unrecognized tax benefits from certain transfer pricing matters in various foreign jurisdictions will expire within the next 12 months. An estimate of the range of the adjustments cannot be made at this time.

The Company recognizes tax related interest and penalties in income tax expense in its Statement of Income. As of March 31, 2008 and April 1, 2007, the Company had an accrual of approximately \$850 and \$1,375, respectively, for interest and penalties.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

13. Retirement Plans

Defined Benefit Plans

The Company provides retirement benefits to substantially all eligible salaried and hourly employees. The Company uses a measurement date of March 31 for its pension plans. The following table sets forth a reconciliation of the related benefit obligation, plan assets, and accrued benefit costs related to the pension benefits provided by the Company for these employees covered by defined benefit plans:

	<u>United States Plans</u>		<u>International Plans</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Change in projected benefit obligation				
Benefit obligation at the beginning of the year	\$9,521	\$8,852	\$44,434	\$35,430
Service cost	254	220	3,912	3,117
Interest cost	564	529	2,328	1,816
Benefits paid	(519)	(506)	(2,036)	(1,644)
Plan participants' contributions	—	—	709	636
Plan curtailments	—	—	(543)	—
Transfer in (effects of business combinations)	—	—	1,390	—
Change due to plan amendment	—	299	—	—
Experience (gain) loss	52	127	(2,689)	872
Foreign currency translation adjustment	—	—	4,298	4,207
Benefit obligation at the end of the period	<u>\$9,872</u>	<u>\$9,521</u>	<u>\$51,803</u>	<u>\$44,434</u>
	<u>United States Plans</u>		<u>International Plans</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Change in plan assets				
Fair value of plan assets at the beginning of the period	\$ 8,040	\$ 7,535	\$ 20,605	\$ 15,417
Actual return (loss) on plan assets	201	831	(727)	931
Employer contributions	228	180	4,619	3,158
Plan participants' contributions	—	—	709	637
Benefits paid, inclusive of plan expenses	(519)	(506)	(2,036)	(1,644)
Foreign currency translation adjustments	—	—	279	2,106
Fair value of plan assets at the end of the period	<u>\$ 7,950</u>	<u>\$ 8,040</u>	<u>\$ 23,449</u>	<u>\$ 20,605</u>
Funded status (deficit)	<u>\$(1,922)</u>	<u>\$(1,481)</u>	<u>\$(28,354)</u>	<u>\$(23,829)</u>
Unrecognized net loss	—	—	—	—
Prepaid (accrued) benefit cost	<u>\$(1,922)</u>	<u>\$(1,481)</u>	<u>\$(28,354)</u>	<u>\$(23,829)</u>

Accrued pension benefit liability is included in accrued expenses and other liabilities.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

Net periodic pension cost for 2008, 2007, and 2006, includes the following components:

	United States Plans			International Plans		
	March 31,			March 31,		
	2008	2007	2006	2008	2007	2006
Service cost	\$ 254	\$ 220	\$ 209	\$ 3,912	\$ 3,117	\$2,754
Interest cost	564	529	505	2,328	1,816	1,609
Actual loss (return) on plan assets	(639)	(599)	(603)	(1,781)	(1,447)	(927)
Amortization and deferral	150	154	157	66	130	—
Net periodic benefit cost	<u>\$ 329</u>	<u>\$ 304</u>	<u>\$ 268</u>	<u>\$ 4,525</u>	<u>\$ 3,616</u>	<u>\$3,436</u>

Significant assumptions used in accounting for the pension benefit plans are as follows:

	United States Plans			International Plans		
	March 31,			March 31,		
	2008	2007	2006	2008	2007	2006
Discount rate	6.0%	6.0%	6.0%	4.3-6.0%	4.0-5.0%	4.0-5.0%
Expected return on plan assets	8.0	8.0	8.0	5.5-8.0	8.0	8.0
Rate of compensation increase	N/A	N/A	N/A	2.0-3.0	2.0-3.0	2.0-4.0

As required by SFAS 158, for pension plans for which the projected benefit obligation exceeds the fair value of plan assets, the Company has recognized in the consolidated balance sheet at March 31, 2008 and 2007, the additional minimum liability of the unfunded projected benefit obligation of \$7,555 and \$7,420, respectively, as current and long-term liabilities, with offsetting equity adjustments. The accumulated benefit obligation for all defined benefit pension plans was \$59,076 and \$51,474 at March 31, 2008 and 2007, respectively.

The accumulated benefit obligation related to all defined benefit pension plans and information related to unfunded and underfunded defined benefit pension plans at the end of each year follows:

	United States Plans		International Plans	
	March 31,		March 31,	
	2008	2007	2008	2007
All defined benefit plans:				
Accumulated benefit obligation	\$9,872	\$9,521	\$49,204	\$41,953
Unfunded defined benefit plans:				
Projected benefit obligation	—	—	25,859	22,066
Accumulated benefit obligations	—	—	24,848	21,142
Defined benefit plans with an accumulated benefit obligation in excess of the fair value of plan assets:				
Projected benefit obligation	9,872	9,521	50,614	44,434
Accumulated benefit obligation	9,872	9,521	48,123	41,953
Fair value of plan assets	7,950	8,040	22,362	20,605

The United States plans do not include compensation in the formula for determining the pension benefit as it is based solely on years of service.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

The Company's investment policy emphasizes a balanced approach to investing in securities of high quality and ready marketability. Investment flexibility is encouraged so as not to exclude opportunities available through a diversified investment strategy.

Equity investments are maintained within a target range of 50%-70% of the total portfolio at market. Investments in debt securities include issues of various maturities, and the average quality rating of bonds should be investment grade with a minimum quality rating of "B" at the time of purchase.

The Company periodically reviews the asset allocation of its portfolio. The proportion committed to equities, debt securities and cash equivalents is a function of the values available in each category and risk considerations. The plan's overall return will be compared to and expected to meet or exceed established benchmark funds and returns over a three to five year period.

The objectives of the Company's investment strategies are: (a) the achievement of a reasonable long-term rate of total return consistent with an emphasis on preservation of capital and purchasing power, (b) stability of annual returns through a portfolio risk level which is appropriate to conservative accounts, and (c) reflective of our willingness to forgo significantly above-average rewards in order to minimize above-average risks. These objectives may not be met each year but should be attained over a reasonable period of time.

The Company expects to make cash contributions of approximately \$5,557 to its pension plans in fiscal year 2009.

As a result of the ESG business combination, the Company has assumed defined benefit plans in Germany and France. These plans have no assets, while their benefit obligations were \$22,208 and \$20,683 as of March 31, 2008 and 2007, respectively. Other salary and hourly employees are provided benefits in accordance with governmental regulatory requirements.

The allocation of investments for the pension plans is as follows:

	United States Plans		International Plans	
	March 31,		March 31,	
	2008	2007	2008	2007
Equity securities	53.8%	63.2%	62.3%	63.8%
Debt securities	41.5	32.4	36.5	35.4
Cash equivalents	4.7	4.4	0.3	0.2
Other	—	—	0.9	0.6
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension Benefits
2009	\$ 2,084
2010	2,094
2011	2,228
2012	2,449
2013	2,581
Years 2014-2018	19,027

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

In accordance with SFAS 158, the Company recognizes the funded status of its retirement plans in its statement of financial position. The underfunded status of our retirement plans recorded as a liability on the Company's statement of financial position at March 31, 2008 and 2007 was approximately \$30,276 and \$25,310, respectively.

The amounts included in accumulated other comprehensive income as of March 31, 2008 that are expected to be recognized as components of net periodic pension cost during the fiscal year ended March 31, 2009 are as follows:

Net gain or (loss)	\$(143)
Net prior service cost	<u>(33)</u>
Net amount expected to be recognized	<u><u>\$(176)</u></u>

Defined Contribution Plan

Effective January 1, 2004, the Company amended its Defined Contribution Plan (the "401(k) Plan"). The amended 401(k) Plan covers substantially all U.S. salaried and hourly employees except those covered by a union plan. All eligible employees of the amended 401(k) Plan receive a matching contribution of 100% of the first 4% of wages contributed and 50% of the next 2% of wages contributed for a total match of up to 5% by the Company. Employer expenses for the 401(k) plan for the fiscal years ended March 31, 2008, 2007 and 2006, were \$2,298, \$2,176 and \$2,160, respectively.

14. Preferred Stock

The Company's certificate of incorporation authorizes the issuance of up to 1,000,000 shares of preferred stock, par value \$0.01 per share (Preferred Stock). At March 31, 2008 and 2007, no shares of Preferred Stock were issued or outstanding. The Board of Directors of the Company has the authority to specify the terms of any Preferred Stock at the time of issuance.

15. Secondary Offerings of Common Shares

On July 27, 2006, the Company filed a shelf registration statement on Form S-3 with the SEC, which allowed the Company to offer and sell from time to time, in one or more offerings, 12,500,000 shares of EnerSys' common stock. The registration statement also permits certain institutional investors and certain members of senior management to sell shares of common stock held by such person.

Under the July 27, 2006 shelf registration statement, certain of the Company's stockholders, including affiliates of Metalmark Capital LLC and certain other institutional stockholders, completed secondary offerings as follows:

- on December 7, 2006, certain of the Company's stockholders, including affiliates of Metalmark Capital LLC and certain other institutional stockholders, completed a secondary offering of 6,000,000 shares of the Company's common stock to Lehman Brothers Inc. The offering closed on December 12, 2006.
- on June 29, 2007, certain of the Company's stockholders, including affiliates of Metalmark Capital LLC and certain other institutional stockholders, completed a secondary offering of 6,000,000 shares of the Company's common stock to Jefferies & Company, Inc. The offering closed on July 5, 2007.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

The Company did not issue any shares or receive any proceeds in the offering under the July 27, 2006 shelf registration statement, however, under the terms of its shareholders' agreement, the Company did incur approximately \$1,085 in fees related to the offering.

On October 30, 2007, the Company filed a \$500,000 shelf registration statement on Form S-3 with the SEC. This registration statement allowed the Company to offer and sell from time to time, in one or more offerings, shares of common stock and debt securities of the Company. The registration statement also permitted certain institutional investors and certain members of senior management to sell approximately 22.2 million shares of common stock held by such person in one or more secondary offerings.

Under the October 30, 2007 shelf registration statement, certain of the Company's stockholders, including affiliates of Metalmark Capital LLC and certain other institutional stockholders, completed secondary offerings as follows:

- on November 29, 2007, 5,000,000 shares of the Company's common stock were sold to Jefferies & Company, Inc. The offering closed on December 3, 2007; and
- on February 26, 2008, 5,000,000 shares of the Company's common stock were sold to Goldman, Sachs & Co. The offering closed on February 29, 2008.

The Company did not issue any shares or receive any proceeds in these offerings, however, under the terms of its shareholders' agreement, the Company did incur approximately \$610 in fees related to the fiscal 2008 offerings.

See Note 26, Subsequent Events, for a secondary offer made in May 2008.

16. Stock-Based Compensation

At March 31, 2008, the Company maintains three management equity incentive plans, which were approved by the Company's shareholders. These plans, which are the 2000 Management Equity Plan, the 2004 Equity Incentive Plan and the 2006 Equity Incentive Plan, reserve 11,289,232 shares of Common Stock for the grant of various classes of nonqualified stock options, restricted stock, restricted stock units and other forms of equity based compensation. At March 31, 2008, 2,344,800 shares are available for future grants. The Company's management equity incentive plans are intended to provide an incentive to employees and non-employee directors of the Company to remain in the service of the Company and to increase their interest in the success of the Company in order to promote the long-term interests of the Company. The plans seek to promote the highest level of performance by providing an economic interest in the long-term performance of the Company. The Company settles employee share-based compensation awards primarily with newly issued shares.

Stock Incentive Plans

Non-qualified stock options have been granted to employees under the equity incentive plans at prices not less than the fair market value of the shares on the dates the options were granted. Generally, options vest over a four-year period and become exercisable in annual installments over the vesting period. Options generally expire in 10 years.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

During fiscal 2006, the Company accounted for equity-based compensation under the provisions and related interpretations of Accounting Principles Board No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). Accordingly, the Company was not required to record compensation expense when stock options were granted to employees as long as the exercise price was not less than the fair market value of the stock at the grant date. Also, the Company was not required to record compensation expense when it issued common stock under the Employee Stock Purchase Plan as long as the purchase price was not less than 85% of the fair market value of the Company's common stock on the grant date. In December 1995, the FASB issued SFAS 123, which allowed the Company to continue to follow the guidelines of APB 25, but required pro-forma disclosures of net income and earnings per share as if the Company had adopted the provisions of SFAS 123. In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of FASB 123*, which provided alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for equity-based employee compensation. The Company continued to account for equity-based compensation under the provisions of APB 25 using the intrinsic value method.

If the compensation cost for the Company's equity-based compensation plans had been determined based on the fair value at the grant dates for awards under those plans in accordance with the provisions of SFAS 123, then the Company's net earnings and net earnings per share for the fiscal years ended March 31, 2006, would have been as follows (in thousands, except per share data):

	Fiscal year ended March 31, 2006
Net earnings, as reported	\$30,726
Add: Equity-based compensation included in net earnings, as reported	261
Subtract: Equity-based compensation under SFAS 123	(1,031)
Pro forma net earnings	<u>\$29,956</u>
Net earnings per common share-as reported:	
Basic	<u>\$ 0.66</u>
Diluted	<u>\$ 0.66</u>
Net earnings per common share-as adjusted:	
Basic	<u>\$ 0.65</u>
Diluted	<u>\$ 0.64</u>

Equity-based compensation expense required by SFAS 123 has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. The fair value of the options granted in fiscal 2006 was estimated at the date of grant using the Black-Scholes option-pricing model utilizing assumptions based on historical data, as follows: risk-free interest rate of 4.4%, dividend yield of zero, expected life of 7 years and expected volatility of 41.2%.

In December 2004, the FASB issued a revision of SFAS No. 123, *Share-Based Payment* ("SFAS 123(R)"), which supersedes SFAS 123 and APB 25. This statement focuses primarily on transactions in which an entity obtains employee services in exchange for share-based payments. The pro forma disclosure previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. Under SFAS 123(R), a public entity generally is required to measure the cost of employee services received in exchange for the award of an

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

equity instrument based on the grant-date fair value of the award, with such cost recognized over the applicable vesting period. In addition, SFAS 123(R) requires an entity to provide certain disclosures in order to assist in understanding the nature of share-based payment transactions and the effects of those transactions on the financial statements. The Company adopted the provisions of SFAS 123(R) on April 1, 2006, using the modified-prospective method.

The modified-prospective method requires that compensation expense be recorded for all unvested stock options at the beginning of the first quarter of adoption of SFAS 123(R), on April 1, 2006. Unvested options outstanding upon adoption, that were accounted for under the minimum value method in accordance with SFAS 123 and APB 25, will continue to be accounted for under the minimum value method. All other unvested options outstanding upon adoption will be accounted for under the modified-prospective method. The Company uses the Black-Scholes option-pricing model to value all of its unvested stock options and the modified prospective method in applying the requirements of SFAS 123(R). In 2006, the pro forma compensation expense was calculated using the Black-Scholes model utilizing assumptions based on historical data, such that expense was determined using separate expected term assumptions for each vesting tranche. As a result, the pro forma compensation expense for any stock options granted prior to April 1, 2006 was calculated using the accelerated amortization method. Upon adoption of FAS 123R, effective April 1, 2006, the Company recognizes compensation expense using the straight-line method.

Upon adoption of SFAS 123(R), the Company began recording compensation cost related to the continued vesting of all stock options that remained unvested as of April 1, 2006, as well as for all stock options granted, modified or cancelled after the adoption date. The compensation cost to be recorded is based on the fair value at the grant date. The fair value of the options granted was estimated at the date of grant using the Black-Scholes option-pricing model utilizing assumptions based on historical data and current market data. The assumptions include expected term of the options, risk-free rate, volatility, and dividend yield. The expected term represents the expected amount of time that options granted are expected to be outstanding, based on historical and forecasted exercise behavior. The risk-free rate is based on the rate at grant date of zero-coupon U.S. Treasury Notes with a term equal to the expected term of the option. Expected volatility is estimated using historical volatility based on historical weekly price changes. The weighted average fair value of options granted in 2008, and 2007 was \$8.00 and \$7.18 per option, respectively, and were determined using the following assumptions:

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	4.7%	5.1%
Dividend yield	0%	0%
Expected life	6 years	7 years
Expected volatility	36.6%	38.3%

For fiscal 2008 and 2007, the Company recognized \$1,168 (\$810 net of taxes) and \$1,192 (\$815 net of taxes), respectively, of stock-based compensation expense associated with the stock option grants.

Prior to the adoption of SFAS 123(R), cash flows resulting from the tax benefit related to equity-based compensation was presented in operating cash flows, along with other tax cash flows, in accordance with the provisions of EITF 00-15, *Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option*, ("EITF 00-15"). SFAS 123(R) superseded EITF 00-15, amended SFAS 95, *Statement of Cash Flows*, and requires tax benefits relating to excess equity-based compensation deductions to be prospectively presented in the statement of cash flows as financing cash inflows.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

The adoption of SFAS 123(R) had the effect of (a) reducing the Company's income from operations, income before income taxes, net income by \$1,192, \$1,192 and \$815, respectively; (b) reducing net cash provided by operating activities by \$815, and (c) reducing basic and diluted earnings per share for the year ended March 31, 2007, by \$0.02 and \$0.02, respectively, and (d) of increasing the Company's net cash provided by financing activities by \$815.

The following table summarizes the Company's stock option activity in the years indicated:

	Number of Options	Weighted Average Remaining Contract Term (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
Options outstanding as of March 31, 2005	7,274,614	5.6	\$13.72	\$11,744
Granted	437,600		15.41	—
Exercised	(138,664)		13.52	381
Canceled	(787,482)		15.31	799
Options outstanding as of March 31, 2006	6,786,068	4.9	\$13.71	\$13,537
Granted	44,729		14.45	—
Exercised	(1,298,548)		12.76	6,109
Canceled	(25,750)		12.19	128
Options outstanding as of March 31, 2007	5,506,499	4.3	\$13.94	\$23,287
Granted	286,724		18.25	—
Exercised	(2,236,505)		12.42	19,338
Canceled	(21,783)		12.99	87
Options outstanding as of March 31, 2008	3,534,935	4.4	\$15.27	\$30,617
Options exercisable as of March 31, 2008	3,019,912	3.7	\$14.97	\$27,159
Options expected to vest as of March 31, 2009	192,682	8.1	\$16.49	\$ 1,442

Fiscal 2008, 2007 and 2006, options were granted with an exercise price that equals or was in excess of the estimated fair market value of a share of EnerSys common stock on the date of grant. The weighted average estimated fair market value of options that were granted in fiscal 2008, 2007 and 2006, computed using the Black-Scholes option-pricing model, were \$8.00, \$7.18 and \$5.99, respectively.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

The following table summarizes information regarding stock options outstanding and exercisable at March 31, 2008:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$3.00-\$10.00	9,890	0.6	\$ 3.74	9,890	\$ 3.74
\$10.01-\$15.00	2,050,214	4.3	11.28	1,886,841	11.10
\$15.01-20.00	614,449	5.8	17.61	283,599	16.71
\$20.01-25.00	718,310	3.9	22.05	697,510	21.96
Over \$25.00	142,072	2.6	29.36	142,072	29.36
	<u>3,534,935</u>	4.4	\$15.27	<u>3,019,912</u>	\$14.97

A summary of the status of the Company's non-vested options as of March 31, 2008, and changes during the year ended March 31, 2008, is presented below.

	Number of Options	Weighted Average Grant-Date Fair Value
Nonvested at March 31, 2007	415,113	\$5.92
Granted	286,724	8.00
Vested	(175,206)	5.82
Forfeited	(11,608)	5.76
Nonvested at March 31, 2008	<u>515,023</u>	7.11

Restricted Stock

No restricted stock awards were granted in fiscal 2008. In fiscal 2007, the Company approved grants of 9,000 shares of restricted stock at a weighted average fair market value on the date of grants of \$16.11 per share. In fiscal 2006, the Company approved grants of 263,282 shares of restricted stock at a weighted average fair market value on that date of grants of \$13.18 per share.

At March 31, 2008 and 2007, the Company had 133,144 and 205,217, respectively, shares of restricted stock outstanding at a weighted average fair market value on that date of grants of \$13.33 and \$13.31, respectively, per share. Generally, restricted stock is granted at the fair market value of the Company's common stock on the date of grant and vest in annual installments of 25% over a four-year period from the date of grant.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

A summary of the changes in restricted stock outstanding under the Company's equity compensation plans during fiscal 2008 is presented below:

	Number of Restricted Stock	Weighted Average Grant Date Fair Value
Non-vested units as of March 31, 2007	205,217	\$13.31
Granted	—	—
Vested	(71,323)	13.27
Canceled	(750)	13.04
Non-vested units as of March 31, 2008	<u>133,144</u>	13.33

During fiscal 2008 and 2007, the Company recognized equity-based compensation expense related to the vesting of restricted stock grants of approximately \$907 with a related tax benefit of \$279 during fiscal 2008 and \$1,694, with a related tax benefits \$593, during fiscal 2007.

Restricted Stock Units

The Company approved a grant of 22,969 restricted stock units on February 12, 2007, at the fair market value on that date of \$16.37 and approved a grant of 19,831 restricted stock units on August 13, 2007, at the fair market value on that date of \$18.96 to non-employee directors. These restricted stock units vest and became exercisable in installments over periods which end on July 20, 2007, and July 19, 2008, respectively, just prior to the Company's annual stockholders meetings. The Company approved a grant of 141,995 restricted stock units in fiscal 2008, at the fair market value on that date of \$18.25 to management and other key employees. These restricted stock units are granted at the fair market value of the Company's common stock on the date of grant and vest 25% per year over a four-year period from the date of grant.

The Company recognized equity-based compensation expense related to the vesting of restricted stock units of approximately \$953, with a related tax benefit of \$293 for fiscal 2008, and approximately \$231, with a related tax benefit of \$66 for fiscal 2007.

All Award Plans

As of March 31, 2008, unrecognized compensation expense associated with the non-vested incentive awards outstanding was \$5,010 and is expected to be recognized over a weighted average period of 30 months.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

17. Earnings Per Share

The following table sets forth the reconciliation from basic to diluted average common shares and the calculations of net earnings per common share (dollars in thousands, except per share data).

	March 31,		
	2008	2007	2006
Net earnings	\$ 59,696	\$ 45,210	\$ 30,726
Average common shares:			
Basic (weighted-average outstanding shares)	47,645,225	46,539,638	46,226,582
Dilutive potential common shares from common stock options	999,225	1,006,602	561,781
Diluted (weighted-average outstanding shares)	48,644,450	47,546,240	46,788,363
Basic earnings per common share	\$ 1.25	\$ 0.97	\$ 0.66
Diluted earnings per common share	\$ 1.22	\$ 0.95	\$ 0.66
Antidilutive options, convertible preferred stock and non-vested restricted stock not included in the dilutive earnings per common share calculation	183,672	1,098,629	6,487,567

See Note 26, Subsequent Events, for the grant of stock options and restricted stock units under the Company's management equity incentive plans and the May 2008 sale of \$172,500 aggregate principal amount of senior unsecured convertible notes.

18. Concentration of Credit Risk

Financial instruments that subject the Company to potential concentration of credit risk consist principally of trade accounts receivable and temporary cash investments. The Company places its temporary cash investments with various financial institutions and limits the amount of credit exposure to any one financial institution. Concentration of credit risk with respect to trade receivables is limited by a large, diversified customer base and its geographic dispersion. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral, such as letters of credit, in certain circumstances.

19. Commitments Contingencies and Litigation

Litigation

The Company is involved in litigation incidental to the conduct of its business, the results of which, in the opinion of management, are not likely to be material to the Company's financial condition, results of operations, or cash flows.

Litigation Settlement Income

In the nine fiscal months of 2007, the Company recorded litigation settlement income of approximately \$3,753, net of fees and expenses, due to the settlements of two separate legal matters. The amounts of the settlements have been recorded as increases in operating income because the costs related to these matters were previously recorded as an element of operating earnings.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

Environmental Issues

As a result of its operations, the Company is subject to various federal, state, local, and foreign environmental laws and regulations and is exposed to the costs and risks of registering, handling, processing, storing, transporting, and disposing of hazardous substances, especially lead and acid. The Company's operations are also subject to federal, state, local and foreign occupational safety and health regulations, including laws and regulations relating to exposure to lead in the workplace.

The Company is involved in ongoing environmental issues at certain of its United States and foreign facilities. The Company currently has identified three potential environmental issues at our Manchester, England battery facility and certain cleanup obligations at its Sumter, South Carolina facility and has established reserves of approximately \$9,906 and \$8,746 in other liabilities and accrued expenses at March 31, 2008 and 2007, respectively. The Company believes it is indemnified in whole or in part for some of these environmental matters. Based on information available at this time, management believes that its reserves are sufficient to satisfy its environmental liabilities.

Manchester, England

We currently have identified three potentially significant environmental issues at our Manchester, England battery facility: lead slag piles that may pose a health risk are located in the vicinity of a public footpath on the property; the potential restoration of the Manchester, Bolton and Bury Canal by British Waterways may lead to sampling and/or remediation obligations with respect to the canal and surrounding areas located on our property; and there may be multiple and as yet unidentified areas of soil and groundwater contamination at the facility. We believe we have a right to be indemnified by the previous owner for these potential environmental liabilities in excess of amounts accrued and submitted a notice of claim to the previous owner in May 2003 regarding these issues. No government or third-party lawsuits, regulatory actions or orders have been filed with respect to this site to date, and all our actions at this site to date are voluntary. We originally established a reserve for this facility at £3,500, and as of March 31, 2008 and 2007, the remaining reserve amounted to approximately \$6,585 and \$6,575, respectively. Based on the information available at this time, we believe these reserves are sufficient to satisfy these environmental liabilities. See Note 26, Subsequent Events, for comments regarding the sale of the Manchester facility, subsequent to March 31, 2008.

Sumter, South Carolina

We currently are responsible for certain cleanup obligations at the former Yuasa battery facility in Sumter, South Carolina. This battery facility was closed in 2001 and is separate from our current metal fabrication facility in Sumter. Remediation issues related to lead contamination in the soil were addressed pursuant to a 1998 Consent Order with the State of South Carolina, and we believe this matter to be closed. We are subject to ongoing storm water inspection requirements under a 2000 Consent Order based on suspected lead contamination. We also are in ongoing discussions with the State of South Carolina regarding alleged trichloroethylene (TCE) and other volatile organic compound (VOC) contamination in the groundwater that predates our ownership of this facility. There may be other unidentified contaminants in the soil or groundwater that also predate our ownership of this facility. We have established a reserve for this facility, and in fiscal 2008, we received \$1,150 from a previous owner in settlement of their indemnification of potential environmental liabilities related to the Sumter facility. As of March 31, 2008 and 2007, the reserves related to this facility and the removal of its remaining equipment totaled approximately \$4,007 and \$2,860, respectively. Based on current information we believe these reserves are adequate to satisfy our environmental liabilities at this facility.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

Lead Contracts

In order to mitigate against large increases in lead costs, the Company has entered into contracts with financial institutions to fix the price of lead. Each such contract is for a period not extending beyond one year. Under these contracts, at March 31, 2008, the Company contracted to fix the price of approximately 58,495 pounds of lead for a total contract price of \$72,307. At March 31, 2007, the Company contracted to fix the price of approximately 73,500 pounds of lead for a total contract price of \$51,790.

Foreign Currency Forward Contracts

We quantify and monitor our global foreign currency exposures. On a selective basis we will enter into foreign currency forward contracts and option contracts to reduce the volatility from currency movements that affect the Company.

Our largest exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe, China and Mexico. Additionally, we have currency exposures from intercompany trade transactions. To hedge these exposures we have entered into foreign currency forward contracts with financial institutions. Each contract is for a period not extending beyond one year. As of March 31, 2008, 2007 and 2006, we had entered into a total of \$99,550, \$93,050 and \$34,300 foreign currency forward contracts.

Interest Rate Swap Agreements

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements. On a selective basis, from time to time, we enter into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable debt interest expense. Such agreements effectively convert \$203,000 of the Company's variable-rate debt to a fixed-rate basis, utilizing the three-month London Interbank Offered Rate, or LIBOR, as a floating rate reference. During fiscal 2008, the Company entered into an additional \$125,000 of interest rate swap agreements, of which \$60,000 became effective in February 2008 and \$65,000 will become effective in May 2008 and will almost entirely replace \$128,000 of interest rate swaps which mature on those dates. Fluctuations in LIBOR and fixed rates affect both the Company's net financial investment position and the amount of cash to be paid or received by it under these agreements.

See Note 26, Subsequent Events, for the subsequent termination of interest rate swap agreements in connection with the May 2008 issuance of \$172,500 of convertible notes and the repayment of a portion of the senior secured Term Loan B.

20. Restructuring plans

The Company has acquisition related restructuring plans and non-acquisition related restructuring plans.

Acquisition related restructuring

The acquisition related restructuring plans were initiated in connection with the acquisition of approximately a 97% interest in Energia in May 2007, and the acquisition of the assets, stock and business of substantially all of the subsidiaries and affiliates comprising the Energy Storage Group of Invensys plc. ("ESG") in 2002. The plans have been aggregated in the following table as the Energia activity is not considered material.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

The plans were initiated in connection with the acquisitions of ESG in 2002 and the motive power battery business of FIAMM, S.p.A. (FIAMM) in 2006. They have been aggregated in the table below as the FIAMM activity is not considered significant. The ESG plan has two significant costs remaining; \$6,585 related to environmental costs and \$1,116 for prior service costs of the employee pension at the facility in Manchester, England.

The Company has described in Note 19, Commitments and Contingencies, the nature of the environmental costs at its Manchester, England and Sumter, S.C. locations. The environmental reserves related to Manchester are in the rollforward of the acquisition related restructuring reserves below while those for Sumter are included in the non-acquisition related restructuring plans rollforward, also below. The Company relied upon Emerging Issues Task Force Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, SFAS 141, *Business Combinations* and SFAS 5, *Accounting for Contingencies*, for the timing and measurement of these costs.

	Employee Severance	Contractual Obligations	Environmental	Plant Closures & Other	Total
Balance at March 31, 2005	\$ 4,363	\$ 3,694	\$6,510	\$ 1,404	\$15,971
Accrual	5,571	1,009	—	2,420	9,000
Adjustment to accrual	(2,910)	(535)	—	313	(3,132)
Costs incurred	(4,937)	(1,705)	(77)	(2,868)	(9,587)
Foreign currency impact and other	(258)	(461)	(450)	(102)	(1,271)
Balance at March 31, 2006	1,829	2,002	5,983	1,167	10,981
Costs incurred	(731)	(1,441)	(124)	(313)	(2,609)
Foreign currency impact and other	181	292	716	104	1,293
Balance at March 31, 2007	1,279	853	6,575	958	9,665
Adjustment to accrual	1,010	—	—	—	1,010
Costs incurred	(312)	—	(40)	(521)	(873)
Foreign currency impact and other	197	106	50	126	479
Balance at March 31, 2008	<u>\$ 2,174</u>	<u>\$ 959</u>	<u>\$6,585</u>	<u>\$ 563</u>	<u>\$10,281</u>

Energia acquisition

Following the May 2007 acquisition of approximately a 97% interest in Energia, and in connection with further European restructuring initiatives (see below), the Company announced its commitment to restructure certain of Energia's operations primarily to facilitate the integration of Energia into the Company's worldwide operations. The balance of the Energia acquisition-related restructuring reserve at March 31, 2008 is \$992, which the Company anticipates spending primarily during fiscal 2009.

FIAMM acquisition

In June 2005, the Company acquired the motive power battery business of FIAMM, S.p.A. (FIAMM). This acquisition, which complements our existing European motive power business, has been accounted for as a purchase and has resulted in the recognition of \$6,450 of goodwill in the Company's financial statements.

In the first quarter of fiscal year 2006, management began to assess and formulate a plan for the restructuring activities related to the FIAMM acquisition and established an estimated reserve of \$9,000. In the

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

third quarter of fiscal year 2006, management completed the assessment of the FIAMM restructuring plan and reduced the reserve by \$3,132. At that time, management lowered its estimate of severance costs because of voluntary terminations and 54 employees who accepted employment at another Company manufacturing facility. The Company was also able to reduce a liability for the repayment of certain governmental training grants. The estimated total revised costs of \$5,868 include \$2,661 related to the termination of 132 manufacturing, selling and distribution employees, and the balance of \$3,207 for plant and warehouse closure costs, including lease terminations.

During fiscal 2006, the Company incurred costs of \$5,028, of which \$2,352 was for the termination of employees and the balance primarily for other closure costs in our Italian and U.K. facilities. During fiscal 2007 and 2008, the Company incurred costs of \$791 and as of March 31, 2007, the balance of the FIAMM reserve was depleted.

ESG acquisition

In March 2002, EnerSys acquired the assets, stock and business of substantially all of the subsidiaries and affiliates comprising the Energy Storage Group of Invensys (ESG). ESG was a manufacturer and supplier of industrial batteries with facilities located in Europe, North America, and Asia. This acquisition enhanced our product offering with complementary product lines and increased our ability to service global clients and gain global market share.

As of the acquisition date, the Company began to formulate an exit and restructuring plan for certain ESG facilities in North America and Europe, which was finalized during the fiscal year ended March 31, 2003. These facilities, located in England, Germany and the United States, were restructured due mainly to excess capacity brought about by the ESG acquisition and relatively high production costs at these locations compared to other EnerSys facilities. The facilities in England and Germany remain open, however, as either a distribution center or as a facility with a significantly reduced manufacturing cost structure. The facility in the United States has been closed. The exit and restructuring plan affected direct, indirect and certain administrative personnel. As of March 22, 2002, the Company recorded a liability of \$18,173, of which \$7,873 related to involuntary termination of employees and \$10,300 related to the cancellation of certain contractual obligations that required the Company to purchase steam at the Germany location.

As a result of the finalization of these plans, the Company recorded an additional liability of \$26,660 in fiscal 2003 for involuntary termination of employees, environmental costs, warranty costs, and plant closure costs and a reduction of \$5,749 in fiscal 2005 primarily in severance and contractual obligations. These two amounts were recorded as adjustments to the goodwill initially recorded for the ESG acquisition. The resolution of the environmental costs at the Manchester, England facility is the only significant item that remains unresolved. The Company continues taking actions consistent with its original plan to resolve these issues.

During fiscal 2008, 2007 and 2006 the Company utilized \$727, \$1,818 and \$4,559, respectively of these reserves. The balance of the ESG acquisition-related restructuring reserve at March 31, 2008, is \$9,223 which we anticipate spending primarily during fiscal 2009 with the exception of the environmental reserves related to Manchester which is more fully described in Note 26. Since the creation of this reserve the total utilized as of March 31, 2008 is \$42,168.

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

Non-acquisition related restructuring plans

The non-acquisition related restructuring plans were initiated in connection with the following cost-reduction programs: in Europe in fiscal 2008, to facilitate the integration of Energia into the Company's operations; in the European motive power segment in fiscal 2006; and in North and South America in fiscal 2002. The Company based its accounting and disclosures primarily on the requirements of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. As a result, charges to net earnings were made in the periods in which restructuring plans liabilities were incurred. These plans individually are not material and accordingly have been aggregated.

A rollforward of these non-acquisition related restructuring reserves is as follows:

	Employee Severance	Contractual Obligations	Environmental (in \$ thousands)	Plant Closures & Other	Total
Balance at March 31, 2005	\$ —	\$ —	\$2,421	\$ 2,345	\$ 4,766
Provision	3,325	1,371	—	663	5,359
Costs incurred	(1,027)	(537)	84	(1,877)	(3,357)
Foreign currency impact and other	176	(152)	—	—	24
Balance at March 31, 2006	2,474	682	2,505	1,131	6,792
Provision	—	—	—	—	—
Costs incurred	(1,979)	(694)	(132)	(826)	(3,631)
Foreign currency impact and other	111	75	—	35	221
Balance at March 31, 2007	606	63	2,373	340	3,382
Provision	8,246	—	—	1,082	9,328
Costs incurred	(6,101)	(10)	(3)	(1,364)	(7,478)
Foreign currency impact and other	249	8	—	70	327
Balance at March 31, 2008	<u>\$ 3,000</u>	<u>\$ 61</u>	<u>\$2,370</u>	<u>\$ 128</u>	<u>\$ 5,559</u>

A description of these three plans is included below.

European Restructuring

On May 23, 2007, the Company announced its commitment to restructure certain of its European operations. The restructuring will primarily facilitate the integration of Energia's reserve and motive power businesses into the Company's worldwide operations. The restructuring is designed to improve operational efficiencies and eliminate redundant costs primarily as a result of the Energia transaction. Restructuring actions commenced upon the completion of the requisite labor consultations, and the Company expects to substantially complete these actions by the end of the fiscal 2009. The Company estimates that the total charges for the European restructuring will amount to approximately \$18,000, which includes cash expenses of approximately \$14,000, primarily for employee severance-related payments on an estimated 240 employees, and a non-cash charge of approximately \$4,000, primarily for fixed asset impairments.

Based on actual commitments to date, the Company recorded a restructuring charge in fiscal 2008 of \$13,191. The charge is composed of \$9,328 as a restructuring accrual, primarily in Europe, for reductions of 120 staff and \$3,863 for non-cash impairment of machinery and equipment. As of March 31, 2008, the reserve

EnerSys

Notes to Consolidated Financial Statements—(Continued)

March 31, 2008

(In Thousands, Except Share and Per Share Data)

balance associated with these actions is \$2,450. The Company expects to spend the majority of this reserve in fiscal 2009. In addition, the Company expects to be committed to approximately \$5,000 of remaining restructuring charges in fiscal 2009.

GAZ facility in Zwickau

During the third quarter of fiscal year 2006, a charge of \$1,063 was incurred, to cover estimated restructuring programs to which the Company committed, to transfer certain existing European assembly operations to the newly acquired GAZ facility in Zwickau, Germany. During fiscal 2007, the Company incurred costs of \$706 and as of March 31, 2007, the balance of this reserve was depleted.

Motive Power in Europe

During the second quarter of fiscal 2006 a restructuring charge of \$5,979, primarily for the motive power segment, was incurred to cover estimated costs in Europe of staff reductions of 112 employees, exiting of a product line, and closing several ancillary locations. The charge comprised \$4,569 as a restructuring accrual and \$1,410 for a non-cash write-off, primarily of machinery and equipment. During fiscal 2008 and 2007, the Company incurred costs of \$112 and \$2,673, respectively, and as of March 31, 2008, the reserve balance is \$690, which mostly represents severance obligations the Company anticipates spending upon the individual employee's determination. During the third quarter of fiscal year 2006, an additional charge of \$238 was provided to cover additional costs, including \$111 of non-cash charges, related to the restructuring plan initiated in the second quarter of fiscal year 2006.

North and South America

During the fiscal year ended March 31, 2002, the Company decided to close and downsize certain existing manufacturing locations in North and South America, reduce product offerings, reduce sales and distribution facilities, and implement other consolidation initiatives. Costs incurred for this activity were \$285 and \$252 in fiscal 2008 and 2007, respectively. These costs related to ongoing expenses from previously closed manufacturing locations. As of March 31, 2008, the reserve balance is \$2,419, a small portion of which the Company expects to spend in the next year and the balance, primarily related to environmental costs, at an indeterminate time in the future.

21. Warranty

The Company provides for estimated product warranty expenses when the related products are sold and are primarily included within accrued expenses. Because warranty estimates are forecasts that are based on the best available information, primarily historical claims experience, claims costs may differ from amounts provided. An analysis of changes in the liability for product warranties is as follows:

Balance at March 31, 2006	\$ 26,652
Current year provisions	12,222
Costs incurred	(11,341)
Balance at March 31, 2007	\$ 27,533
Current year provisions	16,854
Costs incurred	(10,350)
Balance at March 31, 2008	<u>\$ 34,037</u>

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

22. Other Charges and Litigation Settlement Income

The following is a summary of other charges and income:

	March 31,		
	2008	2007	2006
Restructuring and other charges	\$13,191	\$ —	\$8,553
Litigation settlement income	—	(3,753)	—
Total other charges and income	<u>\$13,191</u>	<u>\$(3,753)</u>	<u>\$8,553</u>

Restructuring charges for the year ended March 31, 2008 of \$13,191 is composed of \$9,328 as a restructuring accrual, primarily in Europe, for staff reductions and \$3,863 for non-cash impairment of machinery and equipment.

In fiscal 2007, the Company recorded litigation settlement income of approximately \$3,753, net of fees and expenses, due to the settlements of two separate legal matters. The amounts of the settlements have been recorded as increases in operating income because the costs related to these matters were previously recorded as an element of operating earnings.

Restructuring charges for the year ended March 31, 2006 were \$8,553 which included \$6,217 incurred to cover estimated costs in Europe of staff reductions, exiting of a product line, and closing several ancillary locations, \$1,063 incurred to cover estimated restructuring programs in Europe related to the newly acquired GAZ facility in Zwickau, Germany, and \$1,273 of non-cash write-off of machinery and equipment based on impairment testing.

23. Other (Income) Expense, Net

Other (income) expense, net consists of the following:

	March 31,		
	2008	2007	2006
Foreign exchange transaction (gains) losses	\$2,686	\$1,592	\$(1,317)
Other (income) expense, net	1,616	1,359	(211)
Minority interest	(68)	73	170
Total	<u>\$4,234</u>	<u>\$3,024</u>	<u>\$(1,358)</u>

24. Operations by Industry Segment and Geographic Area

The Company has the following two reportable business segments:

The reserve power segment manufactures batteries used to provide backup power for the continuous operation of critical systems during power disruptions. They include telecommunications and computer systems, such as process control and database systems.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

The motive power segment manufactures batteries used to power mobile manufacturing, warehousing and other material handling equipment, primarily industrial forklifts.

	<u>Reserve Power</u>	<u>Motive Power</u>	<u>Consolidated</u>
Fiscal year ended March 31, 2008			
Net sales	<u>\$883,778</u>	<u>\$1,142,862</u>	<u>\$2,026,640</u>
Operating earnings	<u>\$ 35,328</u>	<u>\$ 84,018</u>	<u>\$ 119,346</u>
Fiscal year ended March 31, 2007			
Net sales	<u>\$642,626</u>	<u>\$ 861,848</u>	<u>\$1,504,474</u>
Operating earnings	<u>\$ 34,293</u>	<u>\$ 59,566</u>	<u>\$ 93,859</u>
Fiscal year ended March 31, 2006			
Net sales	<u>\$571,123</u>	<u>\$ 712,142</u>	<u>\$1,283,265</u>
Operating earnings	<u>\$ 30,124</u>	<u>\$ 38,221</u>	<u>\$ 68,345</u>

Many of the Company's facilities manufacture products for both of the Company's segments. Therefore, it is not practical to disclose asset information on a segment basis.

Summarized financial information related to geographic areas in which the Company operated at March 31, 2008, 2007 and 2006 and for each of the years then ended is shown below.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net sales			
Europe	\$1,115,348	\$ 784,543	\$ 675,422
Americas	777,917	630,813	535,869
Asia	133,375	89,118	71,974
Total net sales	<u>\$2,026,640</u>	<u>\$1,504,474</u>	<u>\$1,283,265</u>
Operating earnings			
Europe	\$ 61,310	\$ 36,024	\$ 35,722
Americas	68,492	52,710	39,278
Asia	2,735	1,372	1,898
Restructuring charges (Europe)	(13,191)	—	(8,553)
Litigation settlement income (Americas)	—	3,753	—
Total operating earnings	<u>\$ 119,346</u>	<u>\$ 93,859</u>	<u>\$ 68,345</u>
Property, plant and equipment, net			
Europe	\$ 190,792	\$ 158,788	\$ 151,444
Americas	127,532	121,502	117,419
Asia	21,673	20,705	12,881
Total	<u>\$ 339,997</u>	<u>\$ 300,995</u>	<u>\$ 281,744</u>

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

25. Quarterly Financial Data (Unaudited)

The Company reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four fiscal quarters in 2008 ended on July 1, 2007, September 30, 2007, December 30, 2007, and March 31, 2008, respectively. The four fiscal quarters in fiscal 2007 ended on July 2, 2006, October 1, 2006, December 31, 2006, and March 31, 2007, respectively.

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Fiscal Year</u>
Fiscal year ended March 31, 2008					
Net sales	\$429,863	\$461,461	\$553,429	\$581,887	\$2,026,640
Gross profit	86,576	92,014	97,482	105,815	381,887
Operating earnings	19,197	31,546	31,397	37,206	119,346
Net earnings	7,393	16,759	16,040	19,504	59,696
Net earnings per common share—basic	\$ 0.16	\$ 0.36	\$ 0.34	\$ 0.40	\$ 1.25
Net earnings per common share—diluted	\$ 0.15	\$ 0.35	\$ 0.33	\$ 0.39	\$ 1.22
Fiscal year ended March 31, 2007					
Net sales	\$359,034	\$353,924	\$377,881	\$413,635	\$1,504,474
Gross profit	77,113	77,709	76,911	79,475	311,208
Operating earnings	25,566	24,736	21,186	22,371	93,859
Net earnings	12,159	11,453	10,979	10,619	45,210
Net earnings per common share—basic	\$ 0.26	\$ 0.25	\$ 0.24	\$ 0.23	\$ 0.97
Net earnings per common share—diluted	\$ 0.26	\$ 0.24	\$ 0.23	\$ 0.22	\$ 0.95

In fiscal 2008, restructuring charges of \$9,857, \$430, \$1,115, and \$1,789 were recorded in the first, second, third and fourth fiscal quarters, respectively for a total of \$13,191. These charges were incurred primarily to facilitate the integration of Energia's reserve and motive power businesses into the Company's worldwide operations. The restructuring is designed to improve operational efficiencies and eliminate redundant costs primarily as a result of the Energia transaction. The total charge is composed of \$9,328 as a restructuring accrual, primarily in Europe, for staff reductions and \$3,863 for non-cash impairment of machinery and equipment. (See Note 20.) During the first, third and fourth fiscal quarters of 2008 the Company recorded professional fees related to a shelf registration statement and secondary offering expenses of \$200, \$235 and \$175, respectively. During the first and second fiscal quarters of 2007 the Company recorded favorable legal settlements, net of fees and expenses of \$2,766 and \$987, respectively. During the second and third fiscal quarters of 2007 the Company recorded professional fees related to a shelf registration statement and secondary offering, and an abandoned acquisition attempt of \$1,085. During the third quarter of fiscal 2007 the Company recorded a non-recurring, favorable tax benefit of \$2,000.

26. Subsequent Events

Equity Awards

In May 2008, the Company granted 264,206 stock options at an exercise price of \$30.19 and 226,210 restricted stock units under its management equity incentive plans.

EnerSys
Notes to Consolidated Financial Statements—(Continued)
March 31, 2008
(In Thousands, Except Share and Per Share Data)

Sale of Manufacturing Facility

In May 2008, the Company announced that, as part of its ongoing European restructuring program, it sold the Manchester, England manufacturing facility at a net of tax gain of approximately \$8,000. This sale is consistent with the Company's strategy to migrate its production to lower cost facilities.

Concurrent Public Offerings of Senior Convertible Notes and Common Stock and a Private Offering of a New Senior Secured Credit Facility

In May 2008, following the end of fiscal 2008, the Company issued \$172,500 aggregate principal amount of senior unsecured 3.375% convertible notes, and used the net proceeds of \$168,200 to repay a portion of its existing senior secured Term Loan B. The senior unsecured convertible notes are potentially convertible, at the option of the holders, into 4,248,761 EnerSys common shares. It is the Company's current intent to settle the principal amount of any conversions in cash, and any additional conversion consideration in cash, shares of EnerSys common stock or a combination of cash and shares. The notes will mature on June 1, 2038, unless earlier converted, redeemed or repurchased.

In connection with the issuance of \$172,500 of senior unsecured convertible note and the repayment of a portion of the senior secured Term Loan B in May 2008, the Company terminated \$30,000 of interest rate swap agreements which had been placed in October, 2005, at a loss of \$1,360.

Also, immediately following the closing of the senior unsecured convertible note issue, the Company commenced refinancing the outstanding combined balance of the senior secured Term Loan B and our existing Revolver of approximately \$200,000, with a new \$350,000 senior secured facility comprising Term A loans and a new Revolver. These planned refinancing transactions, which the Company expects to complete in June 2008, will mature in 6 years.

Concurrently with the convertible note offering, certain of the Company's stockholders offered to sell, subject to market and other conditions, 3,400,000 shares of EnerSys' common stock pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission on May 19, 2008. The offered shares were sold by those stockholders of the Company, including affiliates of Metalmark Capital LLC and certain other institutional stockholders. The selling stockholders granted the underwriters an option to purchase up to 340,000 additional shares, of which 290,000 shares were exercised and sold. A total of 3,690,000 shares were sold as of May 28, 2008. The Company did not receive any proceeds from the common stock offering.

Amendments of Credit Agreements

On May 16, 2008, the Company completed the Fifth Amendment to the \$480,000 Senior Secured Credit Agreement which allowed for the issuance of up to \$205,000 of unsecured indebtedness. The proceeds from the unsecured indebtedness must be used to pay down the senior secured Term Loan B. On May 28, 2008, the Company used the net proceeds of \$168,200 from the senior unsecured convertible notes to pay down a portion of the senior secured Term Loan B.

On May 15, 2008, the Company amended its Euro 25,000 Credit Agreement to allow for the issuance of up to \$205,000 of unsecured indebtedness. The proceeds from the unsecured indebtedness must be used to pay down the senior secured Term Loan B. Additionally, the amendment authorized the Company to enter into a new \$350,000 US Credit Agreement on terms substantially similar to the existing Credit Agreement.

SCHEDULE II

EnerSys Valuation and Qualifying Accounts (In Thousands)

	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Expense</u>	<u>Charge-Offs</u>	<u>Other⁽¹⁾</u>	<u>Balance at End of Period</u>
Allowance for doubtful accounts:					
Fiscal year ended March 31, 2006	\$ 4,709	\$ 596	\$ (748)	\$ 8	\$ 4,565
Fiscal year ended March 31, 2007	\$ 4,565	\$ 315	\$ (960)	\$ 500	\$ 4,420
Fiscal year ended March 31, 2008	\$ 4,420	\$1,436	\$(1,541)	\$ 693	\$ 5,008
Allowance for inventory valuation:					
Fiscal year ended March 31, 2006	\$ 9,898	\$5,817	\$(6,541)	\$ (463)	\$ 8,711
Fiscal year ended March 31, 2007	\$ 8,711	\$7,257	\$(6,352)	\$ 408	\$10,024
Fiscal year ended March 31, 2008	\$10,024	\$9,016	\$(6,491)	\$1,414	\$13,963

(1) Primarily the impact of currency changes as well as acquisitions of certain businesses.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter of the fiscal year to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The report called for by Item 308(a) of Regulation S-K is included herein as "Management's Report on Internal Control Over Financial Reporting."

The attestation report called for by Item 308(b) of Registration S-K is included herein as "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting," which appears in Item 8 in this Annual Report on Form 10-K.

Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. With the participation of the Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. The scope of management's assessment of the effectiveness of internal control over financial reporting includes substantially all of our businesses. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of March 31, 2008.

/s/ JOHN D. CRAIG

John D. Craig
Chairman, President and CEO

/s/ MICHAEL T. PHILION

Michael T. Philion
Executive Vice President, Finance and CFO

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

The information required by this item is incorporated by reference to the sections entitled “Board of Directors,” “Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance—Independence of Directors,” “Corporate Governance—Process for Selection of Director Nominee Candidates,” “Audit Committee Report,” and “Certain Relationships and Related Transactions—Employment of Related Parties” of the Company’s definitive proxy statement for its 2008 Annual Meeting of Stockholders (the “Proxy Statement”).

We have adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees (including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer and Controller) and have posted the Code on our website at www.enersys.com, and a copy is available in print to any stockholder who requires a copy. If we waive any provision of the Code applicable to any director, our Chief Executive Officer, Chief Financial Officer, or Chief Accounting Officer and Controller, such waiver will be promptly disclosed to the Company’s stockholders through the Company’s website.

ITEM 11. *EXECUTIVE COMPENSATION*

The information required by this item is incorporated by reference to the sections entitled “Corporate Governance—Compensation Committee” and “Executive Compensation” of the Proxy Statement.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT RELATED STOCKHOLDER MATTERS*

The information required by this item is incorporated by reference to the section entitled “Security Ownership of Certain Beneficial Owners and Management” of the Proxy Statement.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,827,608	\$15.27	2,344,800
Equity compensation plans not approved by security holders	—	—	—
Total	<u>3,827,608</u>	<u>\$15.27</u>	<u>2,344,800</u>

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

The information required by this item is incorporated by reference to the sections entitled “General Information—Metalmark and our Institutional Stockholders,” “Corporate Governance,” and “Certain Relationships and Related Transactions” of the Proxy Statement.

ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES*

The information required by this item is incorporated by reference to the section entitled “Audit Committee Report” of the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

(1) Consolidated Financial Statements

See Index to Consolidated Financial Statements.

(2) Financial Statement Schedule

The following consolidated financial statement schedule should be read in conjunction with the consolidated financial statements (see Item 8. "Financial Statements and Supplementary Data"): Schedule II—Valuation and Qualifying Accounts.

All other schedules are omitted because they are not applicable or the required information is contained in the consolidated financial statements or notes thereto.

(b) The following documents are filed herewith as exhibits:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Fifth Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
3.2	Bylaws (incorporated by reference to Exhibits 3.2 to Amendment No. 3 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
4.1	2004 Securityholder Agreement (incorporated by reference to Exhibit 4.2 to Amendment No. 4 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on July 26, 2004).
4.2	Consent to Waiver dated as of November 1, 2007, between EnerSys, Morgan Stanley Dean Witter Capital Partners IV, L.P. and MSDW IV 892 Investors, L.P. (furnished herewith).
4.3	Consent to Waiver dated as of February 2, 2008, by and between Morgan Stanley Dean Witter Capital Partners IV, L.P., MSDW IV 892 Investors, L.P. and EnerSys (furnished herewith).
10.1	Credit Agreement, dated March 17, 2004, among EnerSys, EnerSys Capital Inc., various lending institutions party thereto, Bank of America, N.A., as Administrative Agent, Morgan Stanley Senior Funding, Inc., as Syndication Agent, and Lehman Commercial Paper Inc., as Documentation Agent (incorporated by reference to Exhibit 10.9 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.2	First Amendment and Consent to Credit Agreement (File No. 001-32253) (incorporated by reference to Exhibit 10.28 to EnerSys' Form 10-Q filed on September 9, 2004).
10.3	Second Amendment and Consent to Credit Agreement (incorporated by reference to Exhibit 10.3 to EnerSys' Form 10-K filed on June 20, 2005).
10.4	Third Amendment to Credit Agreement and First Amendment to Pledge Agreement (incorporated by reference to Exhibit 10.2 to EnerSys' Form 8-K dated July 6, 2006).
10.5	Fourth Amendment to the Credit Agreement (incorporated by reference to Exhibit 10.1 to EnerSys' Form 8-K dated February 2, 2007).
10.6	Fifth Amendment to Credit Agreement (incorporated by reference to Exhibit 10.1 to EnerSys' Form 8-K dated May 19, 2008).

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.7	Pledge Agreement, dated March 17, 2004, among EnerSys, various subsidiaries of EnerSys and Bank of America, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.10 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.8	Security Agreement, dated March 17, 2004, among EnerSys, various subsidiaries of EnerSys and Bank of America, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.11 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.9	Subsidiaries Guaranty, dated March 17, 2004, among various subsidiaries of EnerSys, in favor of Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.12 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.10	Employment Agreement, dated November 9, 2000, between Yuasa, Inc. and John D. Craig and letter of amendment thereto (incorporated by reference to Exhibit 10.2 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.11	Employment Agreement, dated November 9, 2000, between Yuasa, Inc. and Michael T. Philion and letter of amendment thereto (incorporated by reference to Exhibit 10.3 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.12	Employment Agreement, dated November 9, 2000, between Yuasa, Inc. and John A. Shea and letter of amendment thereto (incorporated by reference to Exhibit 10.5 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.13	Employment Agreement, dated November 9, 2000, between Yuasa, Inc. and Richard W. Zuidema and letter of amendment thereto (incorporated by reference to Exhibit 10.6 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on May 17, 2004).
10.14	Employment Agreement, dated as of July 1, 2007 between EH Europe GmbH and Raymond R. Kubis (incorporated by reference to Exhibit 10.1 to EnerSys' Form 10-Q filed on August 8, 2007).
10.15	Form of 2000 Management Equity Plan (incorporated by reference as Exhibit 10.1 to Amendment No. 3 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.16	Form of Indemnification Agreement between EnerSys and each of its Directors and Officers (incorporated by reference to Exhibit 10.18 to Amendment No. 3 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.17	Form of 2004 Equity Incentive Plan (incorporated by reference to Exhibit 10.24 to Amendment No. 3 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.18	Form of Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.26 to Amendment No. 3 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.19	Stock Subscription Agreement, dated March 22, 2002, among EnerSys Holdings Inc., Morgan Stanley Dean Witter Capital Partners IV, L.P., Morgan Stanley Dean Witter Capital Investors IV, L.P., MSDW IV 892 Investors, L.P., Morgan Stanley Global Emerging Markets Private Investment Fund, L.P. and Morgan Stanley Global Emerging Markets Private Investors, L.P. (incorporated by reference to Exhibit 10.27 to Amendment No. 3 to EnerSys' Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
10.20	Euro Credit Agreement, dated June 15, 2005, among EnerSys S.p.A., Banca Intesa S.p.A., Sanpaolo IMI S.p.A., et al. (incorporated by reference to Exhibit 10.2 to EnerSys' Form 8-K dated June 20, 2005).

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.21	Pledge over the Participation in EnerSys S.p.A., dated June 15, 2005, among EnerSys Holdings (Luxembourg) S.à r.l., Banca Intesa S.p.A., Sanpaolo IMI S.p.A., et al. (incorporated by reference to Exhibit 10.3 to EnerSys' Form 8-K dated June 20, 2005).
10.22	Guaranty, dated June 15, 2005, of EnerSys Capital Inc. in favor of Sanpaolo IMI S.p.A. (incorporated by reference to Exhibit 10.4 to EnerSys' Form 8-K dated June 20, 2005).
10.23	Amendment to Euro 25,000,000 Credit Agreement (incorporated by reference to Exhibit 10.1 to EnerSys' Form 8-K dated January 6, 2007).
10.24	Waiver and Amendment Agreement to Euro 25,000,000 Credit Agreement (incorporated by reference to Exhibit 10.2 to EnerSys' Form 8-K dated May 19, 2008).
10.25	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.1 to EnerSys' Form 8-K dated December 9, 2005).
10.26	EnerSys Management Incentive Plan for fiscal year 2007 (incorporated by reference to Exhibit 10.1 to EnerSys' Form 8-K dated July 6, 2006).
10.27	EnerSys Amended and Restated 2006 Equity Incentive Plan (filed herewith).
10.28	EnerSys Management Incentive Plan for fiscal year 2008 (incorporated by reference to Exhibit 10.1 to EnerSys' Form 8-K dated April 2, 2007).
10.29	Form of Stock Option Agreement (four year vesting) (incorporated by reference to Exhibit 10.1 to EnerSys' Form 8-K dated May 23, 2007).
10.30	Form of Stock Option Agreement (three year vesting) (incorporated by reference to Exhibit 10.2 to EnerSys' Form 8-K dated May 6, 2008).
10.31	Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to EnerSys' Form 8-K dated May 23, 2007).
11.1	Statement regarding Computation of Per Share Earnings.*
21.1	Subsidiaries of the Registrant (filed herewith).
23.1	Consent of Ernst & Young LLP (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

* Information required to be presented in Exhibit 11 is provided in Note 17 of Notes to Consolidated Financial Statements under Part II, Item 8 of this Form 10-K in accordance with the provisions of FASB Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share*.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Reading, Commonwealth of Pennsylvania, on June 11, 2008.

ENERSYS

By /s/ JOHN D. CRAIG

John D. Craig
Chairman, President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose name appears below hereby appoints John D. Craig and Michael T. Phillion and each of them, as his true and lawful agent, with full power of substitution and resubstitution, for him and in his, place or stead, in any and all capacities, to execute any and all amendments to the within annual report, and to file the same, together with all exhibits thereto, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this annual report has been signed below by the following persons in the capacities and on the dates indicated

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOHN D. CRAIG</u> John D. Craig	Chairman, President, and Chief Executive Officer and Director (Principal Executive Officer)	June 11, 2008
<u>/s/ MICHAEL T. PHILION</u> Michael T. Phillion	Executive Vice President-Finance and Chief Financial Officer (Principal Financial Officer)	June 11, 2008
<u>/s/ MICHAEL J. SCHMIDTLEIN</u> Michael J. Schmidtlein	Vice President & Corporate Controller (Principal Accounting Officer)	June 11, 2008
<u>/s/ HWAN-YOON CHUNG</u> Hwan-yoon Chung	Director	June 11, 2008
<u>/s/ KENNETH F. CLIFFORD</u> Kenneth F. Clifford	Director	June 11, 2008
<u>/s/ RAYMOND E. MABUS, JR.</u> Raymond E. Mabus, Jr.	Director	June 11, 2008
<u>/s/ HOWARD I. HOFFEN</u> Howard I. Hoffen	Director	June 11, 2008
<u>/s/ MICHAEL C. HOFFMAN</u> Michael C. Hoffman	Director	June 11, 2008

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ ARTHUR T. KATSAROS</u> Arthur T. Katsaros	Director	June 11, 2008
<u>/s/ JOHN F. LEHMAN</u> John F. Lehman	Director	June 11, 2008
<u>/s/ DENNIS S. MARLO</u> Dennis S. Marlo	Director	June 11, 2008



Mixed Sources

Product group from well-managed
forests, controlled sources and
recycled wood or fiber

www.fsc.org Cert no. SCS-COC-00648
© 1996 Forest Stewardship Council

END